



STRENGTH. GROWTH. ENDURANCE.

SDCERS

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

San Diego City Employees' Retirement System

A Component Unit of the City of San Diego

A Defined Benefit Pension Plan for
Employees of the City of San Diego, the San Diego Unified Port District,
and the San Diego County Regional Airport Authority.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The San Diego City Employees' Retirement System's (SDCERS) mission is to deliver accurate and timely benefits to its members, retirees and beneficiaries and ensure the Trust Fund's safety, integrity and growth.

Issued by:

Mark A. Hovey
Chief Executive Officer

Robert J. Buscher
Chief Financial Officer

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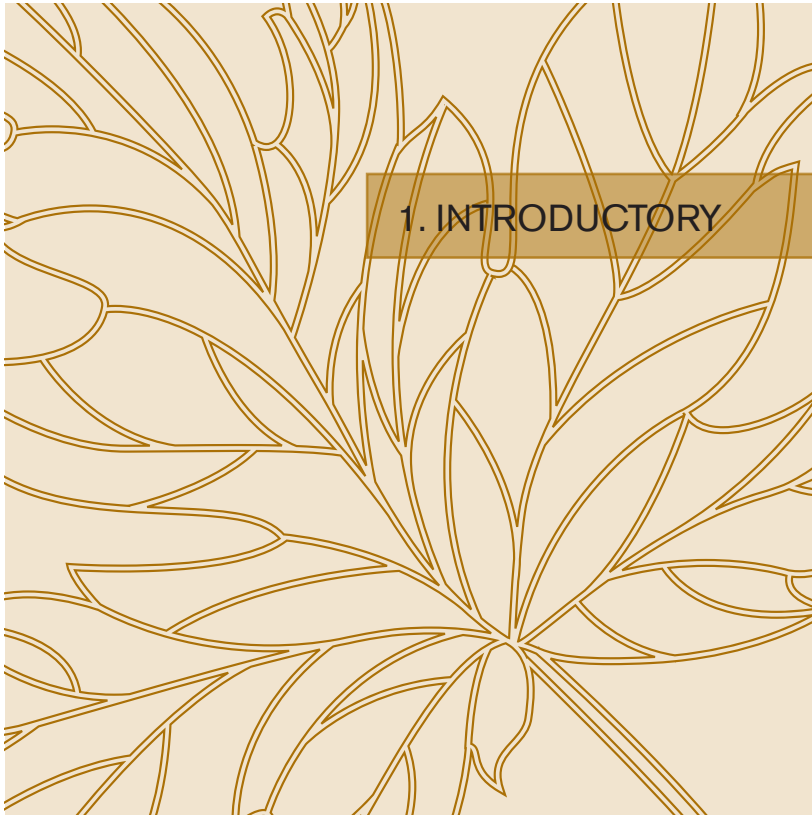
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1. INTRODUCTORY

Transmittal Letter



December 10, 2010

To the Participants, Plan Sponsors and Trustees of the San Diego City Employees' Retirement System:

I am pleased to present the San Diego City Employees' Retirement System's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010 (FY 2010).

SDCERS' Background and History: SDCERS was established in 1927 by the City of San Diego to provide retirement, disability, and death benefits to its participants. Employees of the San Diego Unified Port District became members of SDCERS in 1963, and employees of the San Diego County Regional Airport Authority became members in 2003.

In order to attain the appropriate level of funding for each member, SDCERS' actuary specifies a formula to calculate the amount to be contributed by participating Plan Sponsors and members each year until retirement. SDCERS invests these contributions utilizing a long-term investment strategy consisting of a diversified mix of equities, fixed income, real estate, and private equity. Plan Sponsor and member contributions, along with investment earnings, represent the three funding sources from which SDCERS pays benefits and its operational expenses.

Investment Results. Following a difficult year in 2009, SDCERS' investments rebounded strongly in FY 2010, with final returns of +13.4% versus -19.2% for FY 2009. As of June 30, 2010, SDCERS' annualized total investment return was -4.4% over the past three years, +2.8% over the past five years, and +4.5% over the past ten years, which is in the top 9% for public pension plans.

It is important to remember that SDCERS invests for the very long term. As a result, SDCERS' investment philosophy and strategy are focused on long-term results. SDCERS has never, and should never, manage its portfolio for the short term. Our long-standing, disciplined strategy of a well-balanced portfolio has and will continue to work over the long haul.

Investment returns have continued to improve since July 1, 2010, thanks in part to strong market performance. However, we still have more than six months to go before we can record successive double-digit yearly gains. SDCERS' target and actual asset allocation as of June 30, 2010, and recent and long-term investment performance, are included in the Investment Section.

Funding Status. SDCERS engages an independent actuarial consulting firm to conduct annual actuarial valuations. The valuation purpose is to reassess benefit commitments and compare them to the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly.

The June 30, 2009 actuarial valuations, the most recent available for our three Plan Sponsors, are summarized in this CAFR and show that the City's plan is 66.5% funded, the Unified Port District's plan is 77.5% funded, and the Airport Authority's plan is 86.9% funded. These ratios moved lower in FY 2009, reflecting the weak investment performance. Given the actuarial asset smoothing process, approximately 55% of the FY 2009 investment losses are reflected in these funding ratios, which may change little in the FY 2010 valuation despite the strong investment returns this year. Historical trend information regarding funded status is provided in the Financial and Actuarial Sections of this report.

SDCERS' Board Implements new City Member Contribution Rates. Following a six-month review of all applicable City Charter and Municipal Code provisions regarding member contribution rates, the Board approved new contribution rates for City members that became effective in July 2010. This was the most exhaustive review of member contribution rates undertaken to date, and resulted in City members paying slightly more of the annual Normal Cost contribution and the City slightly less. As with the Board's review in FY 2009

of the asset smoothing corridor (that ensures actuarial assets are within +/- 20% of the market value of assets), the Board fulfilled its fiduciary duty to SDCERS' participants by thoroughly examining this important issue. The Board's decision was based on facts, stakeholder input, expert opinion, robust discussion and rational analysis. And, it followed a transparent process based on the Trustees' Constitutionally-mandated fiduciary duty, free of any improper influence.

SDCERS' Group Trust Receives Yet Another Favorable IRS Determination Letter. In September 2010, the IRS issued a Determination Letter approving the Airport Authority's Trust as tax-exempt under the Internal Revenue Code. SDCERS applied for this Determination Letter in August 2008 after SDCERS was restructured from a multiple employer plan into a group trust, with separate participating qualified plans and trusts for each of its Plan Sponsors. SDCERS received a Determination Letter approving SDCERS as a Group Trust in September 2009. SDCERS' Group Trust allows our three Plan Sponsors to pool their assets for investment purposes without exposing those assets to claims from each other. This restructuring was done to provide maximum protection to our Plan Sponsors and plan participants.

SDCERS also filed Determination Letter applications for the City and the Unified Port District, and those applications remain pending at this time.

FY 2009 CAFR Receives GFOA Certificate of Achievement. The Government Finance Officers Association (GFOA) awarded SDCERS' FY 2009 CAFR the Certificate of Achievement for Excellence in Financial Reporting. This Certificate of Achievement "is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management." This continues our renewed recognition that began with the FY 2008 CAFR, following a several year interruption. This award is the direct result of extraordinary work by our Finance, Investment and Legal teams.

Legal Challenges and Benefits Corrections. Three matters have required a significant commitment of staff time in the past year and into FY 2011. First, the Member Services, Benefits Administration, Finance & Accounting, Internal Audit and Legal divisions resolved approximately 135 underpriced Purchased Service Credit (PSC) contracts originally entered into by our members following the closure in 1989 of what was known as the City's "1981 Plan." The facts of the class error were researched and reported to the Board; internal correction procedures were developed to determine the exact amounts involved; clear correction alternatives were presented to affected members; appropriate payments were received; and member records were adjusted to resolve the associated underpayments. Second, in May of this year, the City of San Diego filed a complaint against SDCERS seeking the Court to order SDCERS to charge City employees half of all System investment losses through increased member contributions. SDCERS is vigorously defending its position that investment gains and losses accrue solely to the Plan Sponsor. This matter remains open, with a scheduled court hearing in February 2011 to discuss the matter. Finally, a June 2010 Appellate Court ruling pertaining to underpriced Purchased Service Credit contracts from 2003/2004 requires SDCERS to resolve historical PSC underpricing with the affected members, and not charge the Plan Sponsors with the underpricing. We continue to work with the Plan Sponsors and the membership to resolve the underpricing. More information on the latter two issues is included in the Notes to the Financial Statements that accompany this Transmittal Letter.

Investment Team Continues an Ambitious Agenda. Under Liza Crisafi's leadership as our Chief Investment Officer, SDCERS began investing in Private Equity, completed the selection of a new general investment consultant (Hewitt EnnisKnupp), revised our Investment Policy Statement, and completed an Asset Allocation and Liability Study. Exciting developments are underway in the current fiscal year as well.

SDCERS Employees Receive Recognition. In October, SDCERS recognized three employee "Superstars" for FY 2010: Mateo Osorio, Jean Evans, and Sara Jimenez. These colleagues had an extremely positive impact on SDCERS and our participants, and we are very proud of their accomplishments.

Audited Financial Statements. The financial statements included in this CAFR have been prepared by SDCERS' management, which is responsible for the integrity and fairness of the data presented, including the many amounts that must be based on estimates and judgments. The accounting policies followed in preparation of these financial statements conform to accounting principles generally accepted in the United States of America. The basic financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB). All the financial information presented is consistent with these financial statements. GASB Statement No. 34 requires that

Introductory Section

management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This Transmittal Letter complements the MD&A, which follows the report of the independent auditors, and should be read in conjunction with it.

SDCERS' management is responsible for the accuracy, completeness, and fair presentation of information, and all disclosures in this report. The accounting firm of Macias Gini & O'Connell LLP provides audit services to SDCERS. Their opinion on the financial statements indicates that SDCERS' financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements.

Internal Controls. SDCERS has established and maintains a framework of internal controls to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed and the financial statements are reliable. However, we recognize that even sound internal controls have their inherent limitations. Therefore, internal controls are reviewed to ensure that SDCERS' operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard SDCERS' assets. Our Internal Auditor reviews our internal controls and operations, and reports regularly to the Board's Audit Committee, which reviews the audit findings and recommendations for improvement in internal controls and the actions of management to implement these recommendations.

Acknowledgments. I would like to express my personal appreciation to our Trustees and Audit Committee members who, without compensation, have provided the leadership, direction and support that have made all of our recent achievements possible. Our Plan Sponsors, members, and the citizens of our community have been well-served by their stewardship of SDCERS.

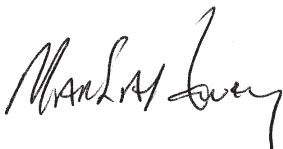
I would especially like to recognize former Audit Committee member and past chair Armon Kamesar for his service to SDCERS. Armon served as Chairman of the Audit Committee when it was constituted in 2005. Armon passed away this past year and we miss him dearly. New Audit Committee member Dave Kramer, bringing an outstanding financial background, has agreed to fill Armon's remaining term. We enjoyed excellent stability in our Board membership, with no changes in FY 2010.

Additionally, I would like to thank our former CEO and Administrator, David Wescoe, who left SDCERS in November 2009. David was absolutely the "right man at the right time" and saw SDCERS through a period of remarkable transformation in our corporate governance and resolution of plan compliance issues with the Internal Revenue Service. David's accomplishments for SDCERS and its membership were innumerable, and we wish him well.

Finally, I would like to thank my SDCERS colleagues. Each one works hard and takes very seriously their role in providing for the financial security of our members, retirees and beneficiaries. SDCERS' staff is dedicated and committed to ensuring the System's success. Their individual efforts, combined with those of a great group of professional advisors and investment managers, inspire me each day.

This year's achievements are due to the leadership of our Trustees, the hard work of SDCERS' employees and the support of our members, retirees and beneficiaries. It is a pleasure and an honor to serve you.

Respectfully submitted,



Mark A. Hovey
Chief Executive Officer

**San Diego City Employees' Retirement System
GFOA Certificate of Excellence**

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**San Diego City
Employees' Retirement System
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**San Diego City Employees' Retirement System
Board of Administration
As of June 30, 2010**

BOARD OF ADMINISTRATION			Mark C. Sullivan, President ELECTED SAFETY (POLICE) MEMBER
Raymond G. Ellis , Vice President MAYORAL APPOINTEE		Alan J. Arrollado ELECTED SAFETY (FIRE) MEMBER	
	Gregory J. Bych EX-OFFICIO, MAYORAL DESIGNEE		Susan S. Gonick MAYORAL APPOINTEE
David A. Hall ELECTED RETIREE		V. Wayne Kennedy MAYORAL APPOINTEE	
	Edward W. Kitrosser MAYORAL APPOINTEE		Franklin R. Lamberth ELECTED GENERAL MEMBER
Steven W. Meyer ELECTED GENERAL MEMBER		Herb W. Morgan MAYORAL APPOINTEE	
	Mark E. Oemcke MAYORAL APPOINTEE		Richard R. Tartre MAYORAL APPOINTEE

San Diego City Employees' Retirement System
Board of Administration Committees
 As of June 30, 2010

In addition to regular Board duties, SDCERS Trustees also participate in one or more standing committees that review policies and procedures related to various areas of SDCERS' administration, report their findings and make recommendations to SDCERS' Board. The composition and responsibilities of the standing committees as of June 30, 2010 were as follows:

Audit Committee

H. Michael Collins (Chair)* Marilyn Creson Brown* David W. Kramer* Edward W. Kitrosser Mark C. Sullivan	Responsible for providing oversight of financial reporting process; the system of internal controls; and the independent audit process. Recommends to the full Board the acceptance of the CAFR, as well as acknowledgment and receipt of the external auditor's Report to the Board of Administration and opinion on the audited financial statements. The Audit Committee Charter requires three members to be independent, non-board members appointed by the Board and such members are denoted by the "*" at left.
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Business and Governance Committee

Raymond G. Ellis (Chair) Susan S. Gonick V. Wayne Kennedy Franklin R. Lamberth Steven W. Meyer Mark C. Sullivan	Responsible for reviewing SDCERS' business and procedures; reviewing actuarial valuations; reviewing the annual budget; developing Board rules; and facilitating training programs for Board members.
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Disability Committee

David A. Hall (Chair) Alan J. Arrollado Edward W. Kitrosser Mark C. Sullivan Richard R. Tartre	Responsible for reviewing staff recommendations on disability applications; recommending to the Board final decisions on adjudicator findings with regard to disability retirement applications; and making recommendations for changes to the disability retirement process.
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Executive Committee

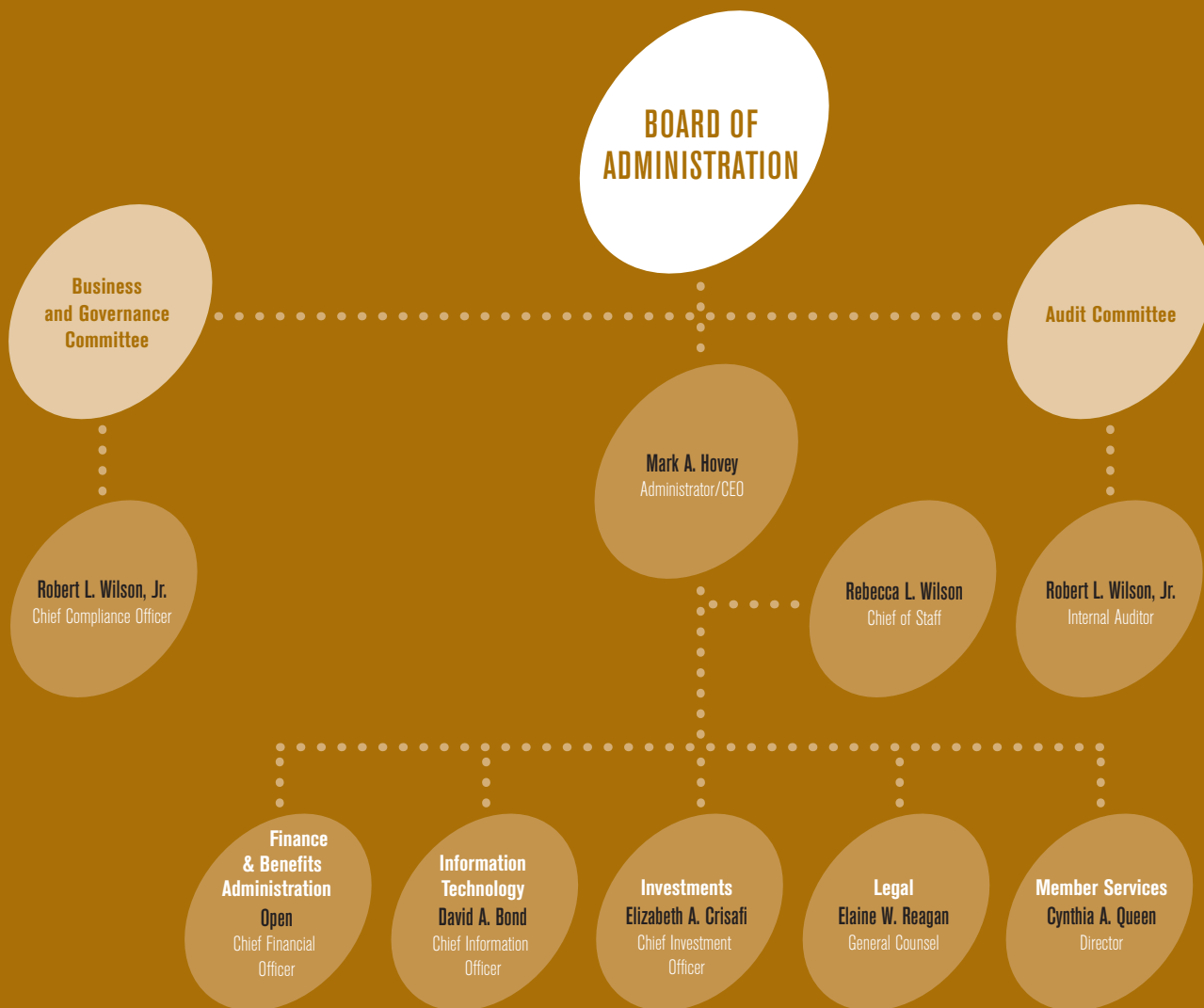
Mark C. Sullivan (Chair) Raymond G. Ellis David A. Hall Steven W. Meyer	Responsible for reviewing Board agendas; and developing the performance plan and evaluating the performance of the Administrator/CEO, Internal Auditor, and the Chief Compliance Officer.
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Investment Committee

Steven W. Meyer (Chair) Gregory J. Bych Herb W. Morgan Mark E. Oemcke Mark C. Sullivan Richard R. Tartre	Responsible for monitoring investment performance; and recommending changes to the Investment Policy Statement.
---	---

**San Diego City Employees' Retirement System
Organization Chart
As of June 30, 2010**

SDCERS' MEMBERS, RETIREES AND BENEFICIARIES



Report from SDCERS' Board President

December 10, 2010

Dear SDCERS Constituents:

As the elected Board President of the San Diego City Employees' Retirement System (SDCERS), I am pleased to present the Comprehensive Annual Financial Report for Fiscal Year 2010. This last year has been one filled with both change and challenges.

On a positive note, after weathering two years of dramatic declines in the global economy, I am pleased to announce that SDCERS' investment returns for this year exceeded 13%. These exceptional returns added approximately \$514 million to our trust fund assets. Investment earnings above our 7.75% assumed rate of return will help lessen the impact of prior investment losses and get us back on track toward meeting our long term investment return objectives. Meeting these return objectives is paramount to ensuring that approximately 70% of the benefits we pay out to members comes from investment returns.

This year, we said goodbye to our good friend and Chief Executive Officer, David Wescoe. David fulfilled a four-year commitment to SDCERS by instituting a comprehensive operational overhaul of our pension system. David served our members well during his time at SDCERS and he will truly be missed.

After an extensive national search, we were very pleased to select our new CEO from within the ranks of SDCERS. By a unanimous Board vote, Mark A. Hovey was appointed as the successor Chief Executive Officer. Mark has been our Chief Financial Officer since 2007 and had recently been acting as Interim CEO. Mark brings more than 30 years of financial management experience to SDCERS. During his tenure as CFO, Mark earned the coveted Government Agency CFO of the Year Award from the San Diego Business Journal. The Board has great confidence in Mark's ability to lead SDCERS while continuing to meet our mission of ensuring the trust fund's safety, integrity and growth.

This year saw no shortage of legal challenges for SDCERS. The most recent filing by the City of San Diego challenges some of SDCERS' most fundamental principles of administering member benefits and setting contribution rates. Using new interpretations of the City Charter, which conflict with 70 years of past practices, the outcome of this debate has the potential to add significant volatility for both members and the Plan Sponsor for decades to come.

It has been and will continue to be the duty of the SDCERS Board to defend its independence from any political influence and to continue prudently managing plan assets for the purpose of administering the promised benefits to the approximately 20,000 active, deferred, and retired SDCERS members and their survivors.

I would like to extend the Board's appreciation to our members and retirees for their ongoing support, and to our staff for their effort and commitment to the continued successful operation of SDCERS. I would also like to express my deep gratitude to each member of the SDCERS Board of Administration for their dedication and efforts throughout this past year.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark C. Sullivan", written in a cursive style.

Mark C. Sullivan

President, SDCERS Board of Administration

San Diego City Employees' Retirement System
Professional Services
As of June 30, 2010

Actuary

Cheiron
McLean, VA

Consulting and Professional Services

Levi, Ray & Shoup
Springfield, IL

San Diego Data Processing Corporation
San Diego, CA

Linea Solutions
Los Angeles, CA

L.R. Wechsler, LTD
Fairfax, VA

JPI Printing, Inc.
San Diego, CA

Viadesign
San Diego, CA

Custodian

State Street Bank & Trust Company
Alameda, CA

Independent Auditor

Macias Gini & O'Connell LLP
Certified Public Accountants
San Diego, CA

Investment Consultant

Hewitt EnnisKnupp, Inc.
Chicago, IL

Real Estate Consultant

The Townsend Group
San Francisco, CA

Private Equity Consultants

Credit Suisse Securities (USA) LLC
New York, NY

StepStone Group LLC
San Diego, CA

SDCERS' medical and legal service providers are identified in Other Supplementary Information in the Financial Section. SDCERS' investment managers are identified in the Investment Section.



2. FINANCIAL



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INDEPENDENT AUDITOR'S REPORT

To the Board of Administration of the
San Diego City Employees' Retirement System
San Diego, California

We have audited the accompanying statement of plan net assets of the Group Trust of the San Diego City Employees' Retirement System (SDCERS), a component unit of the City of San Diego, as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. We have also audited the accompanying statement of fiduciary assets and liabilities of the Preservation of Benefits agency fund of SDCERS as of June 30, 2010. These financial statements are the responsibility of SDCERS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from SDCERS' 2009 financial statements on which our report dated December 8, 2009, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDCERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Group Trust of the San Diego City Employees' Retirement System as of June 30, 2010, the fiduciary assets and liabilities of the Preservation of Benefits agency fund as of June 30, 2010 and the changes in plan net assets of the Group Trust for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 9 and 10 to the financial statements, SDCERS is involved in various uncertainties related to several lawsuits, claims, and purchased service contracts. The ultimate outcome of these matters and impact on SDCERS' financial statements cannot presently be determined.

As discussed in Notes 1 and 3 to the financial statements, SDCERS adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, effective July 1, 2009.

As presented in the funded status in Note 6 and based on the most recent actuarial valuation, SDCERS' independent actuaries determined that, at June 30, 2009, the value of the City of San Diego's Defined Benefit Pension Plan's actuarial accrued obligation exceeded the actuarial value of its assets by \$2.1 billion.

3000 S Street Suite 300 Sacramento CA 95816	2121 N. Colima Blvd. Suite 750 Walnut Creek CA 95496	505 14th Street 5th Floor Oakland CA 94612	515 S. Figueroa Street Suite 325 Los Angeles CA 90071	2029 Century Park East Suite 500 Los Angeles CA 90067	1201 Dove Street Suite 480 Newport Beach CA 92660	225 Broadway Suite 1750 San Diego CA 92101
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2010, on our consideration of SDCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 14 through 21, the Schedules of Funding Progress on pages 53 through 55 and the Schedules of Plan Sponsors' Contributions on pages 56 through 58 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The other supplementary information in the financial section and the introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Jini & O'Connell LLP

Certified Public Accountants

San Diego, California
December 8, 2010

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview and analysis of SDCERS' financial condition for the fiscal year ended June 30, 2010 (FY 2010), with results also compared to the fiscal year ended June 30, 2009 (FY 2009).

SDCERS' funding objective is to meet long-term benefit obligations through plan sponsor and member contributions and earnings on invested assets. SDCERS has three plan sponsors: the City of San Diego (City), the San Diego Unified Port District (Port), and the San Diego County Regional Airport Authority (Airport).

The SDCERS Board of Administration (Board) adopted a Declaration of Group Trust, effective July 1, 2007. The Internal Revenue Service issued a favorable determination letter with respect to the Group Trust on September 10, 2009. Under the Group Trust, the City, Port, and Airport plans are treated as separate plans, with assets of each pooled for investment purposes only. Separate financial statements for FY 2010 only are presented in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan. In addition, the discussion and analysis compares financial information between FY 2010 and FY 2009 for the total of all three plans, rather than the separate plans. See *Note 1. Summary of Significant Accounting Policies* for more details on the Group Trust.

Financial Highlights

As of June 30, 2010, the SDCERS Group Trust had \$3.786 billion in total net assets held in trust for the payment of pension benefits compared to total net assets of \$3.354 billion at June 30, 2009. This represents a \$431.6 million increase (12.9%) from FY 2009. The FY 2010 increase reflects plan sponsor and member contributions (\$280.7 million) plus net investment gains (\$491.3 million), offset by benefit payments and administrative expenses (\$340.4 million).

For FY 2010, total contributions plus net investment gains resulted in total additions of \$772.0 million to the Group Trust net assets, an increase of \$1.480 billion from FY 2009 net negative additions of \$707.5 million. Increased net investment earnings of \$1.447 billion was the main factor in the improvement over last year.

As of June 30, 2010, deductions from Group Trust net assets for benefits and expenses totaled \$340.4 million, a \$17.4 million increase (5.4%), compared to FY 2009 deductions of \$323.0 million.

Actuarial valuations are performed for each plan sponsor annually as of June 30th and are presented to the Board for approval. Dividing the Actuarial Value of Assets (AVA) by the Actuarial Accrued Liabilities (AAL) results in a funded ratio that is one measure of a pension plan's funded status. An Unfunded Actuarial Liability (UAL) results when the AVA is less than the AAL. Changes in funded status can be caused by increases or decreases in the AVA or AAL, resulting in actuarial gains and losses. The actuarial valuation as of June 30, 2010 for all three plan sponsors is expected to be received in January 2011.

As of June 30, 2009, the City's funded status, calculated pursuant to the EAN actuarial funding method, was 66.5%. This means that for every dollar of benefits due, the City had approximately 66.5 cents in actuarial assets available for payment.

As of June 30, 2009, the Port's funded status under EAN was 77.5%; for every dollar of benefits due, the Port had approximately 77.5 cents in actuarial assets available for payment.

As of June 30, 2009, the Airport's funded status under EAN was 86.9%; for every dollar of benefits due, the Airport had approximately 86.9 cents in actuarial assets available for payment.

Six years of historical funded status information for the City, Port and Airport are set out in the Required Supplementary Information with associated commentary located in the Notes to the Schedules of Funding Progress. Additional information is presented in *Note 6. Funded Status and Actuarial Methods and Assumptions*, and in the Actuarial Section. The Actuarial Valuations can be found online at sdcers.org.

As discussed in *Note 9. Legal Action* and *Note 10. Subsequent Events*, SDCERS is involved in a number of litigation matters. SDCERS' management does not believe that the outcome of any of them will have a material adverse impact on SDCERS' financial condition.

Overview of Financial Statements

SDCERS' audited financial statements are comprised of the following six items:

1. Statement of Plan Net Assets;
2. Statement of Changes in Plan Net Assets;
3. Statement of Fiduciary Assets and Liabilities;
4. Notes to the Financial Statements;
5. Required Supplementary Information; and
6. Other Supplementary Information - Supporting Schedules.

The **Statement of Plan Net Assets** is a balance sheet presentation of assets and liabilities for the Group Trust. It discloses the assets available for future payments of benefits to retirees and beneficiaries and current liabilities that are owed as of June 30, 2010, with comparative totals as of June 30, 2009. As of July 1, 2007, the City, Port and Airport plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. Accordingly, the interests of each plan and trust are accounted for separately, as presented in this year's Statement of Plan Net Assets.

The **Statement of Changes in Plan Net Assets** provides an income statement presentation of annual additions to and deductions from plan assets for the Group Trust for FY 2010, with comparative totals for FY 2009. The FY 2010 Statement also presents separate reporting for the City, Port and Airport, consistent with the Statement of Plan Net Assets.

Both Statements comply with all applicable Governmental Accounting Standards Board (GASB) statements that require certain disclosures and the use of the full accrual method of accounting.

Both Statements were prepared using the accrual basis of accounting and report information about SDCERS' financial activities, including all assets and liabilities. All investment gains and losses are shown on a trade-date basis using market and appraised values, and all capital assets are depreciated over their useful lives.

The **Notes to the Financial Statements** provide additional information essential to a full understanding of the data presented in the audited financial statements. This section provides a quantitative and qualitative basis for assessing SDCERS' financial condition. *Note 1. Summary of Significant Accounting Policies* provides information on the assumptions and methods used in the presentation of SDCERS' financial statements. It provides for the basis for accounting treatment of stated values under Generally Accepted Accounting Principles (GAAP) used that are unique to a public employee retirement system.

The **Required Supplementary Information** provides information concerning plan sponsors' progress in funding their benefit obligations. It also contains the Schedules of Plan Sponsors' Contributions and Notes that accompany each of these schedules.

The **Other Supplementary Information - Supporting Schedules** includes a Schedule of Administrative Expenses, a Schedule of Payments to Consultants, a Schedule of Fees Paid to Investment Professionals, and a Statement of Changes in Assets and Liabilities – Agency Funds. All Supporting Schedules are included after the Required Supplementary Information.

SDCERS' management is responsible for the accuracy, completeness, and fair presentation of this information and all disclosures in accordance with U.S. GAAP.

Financial Analysis

Tables 1 and 2 below summarize and compare SDCERS' financial results for the current and prior fiscal year for the Group Trust.

The Group Trust's net assets held in trust for the payment of defined benefit pension benefits as of June 30, 2010 totaled \$3.786 billion, a \$431.6 million increase (12.9%) compared to net assets of \$3.354 billion as of June 30, 2009. Investment returns of 13.4% for the year accounted for the most significant portion of the increase in net assets. All net assets are available to meet SDCERS' ongoing retirement and disability payment obligations to retirees and beneficiaries. A comparative summary is set out in Table 1 as follows.

Table 1: Plan Net Assets (Dollars in Thousands)

	2010	2009	Total Percentage Change
Cash and Cash Equivalents	\$404,513	\$374,935	7.9%
Receivables	85,028	109,333	-22.2
Investments, at Fair Value	3,835,399	3,448,135	11.2
Securities Lending Cash Collateral	492,171	395,085	24.6
Capital Assets plus Prepaid Expenses	1,625	1,348	20.5
Total Assets	\$4,818,736	\$4,328,836	11.3%
Current Liabilities	149,322	218,677	-31.7
DROP Liabilities	391,283	360,758	8.5
Securities Lending Obligations	492,171	395,085	24.6
Total Liabilities	\$1,032,776	\$974,520	6.0%
Plan Net Assets	\$3,785,960	\$3,354,316	12.9%

Reserves

Pension plans establish reserves to set apart plan net assets for various anticipated liabilities. SDCERS' reserves have been established to account for employer and employee contributions, the accumulation of current retired members' expected benefits and other items.

The largest reserve balances are for accumulated benefits payable to retired SDCERS members. These comprise approximately 47% of plan assets (\$1.8 billion reserved out of \$3.9 billion in total reserves) as of June 30, 2010. Reserves for Plan Sponsor Contributions at June 30, 2010 were \$1.1 billion, up \$275.8 million from June 30, 2009. A complete listing of SDCERS' reserves and comparative balances for FY 2010 are set out in *Note 5. Reserve Balances*.

Current Year Results

Key elements of FY 2010 results and year-over-year comparisons are summarized below.

Additions to Plan Net Assets, necessary to pay current retirement benefits and accrue for future retirement benefits, are accumulated from plan sponsor and member contributions and the earnings on invested assets (net of investment management fees and related expenses). For FY 2010, contributions were supplemented by investment gains, resulting in total additions of \$772.0 million, an increase of \$1.480 billion over FY 2009 net negative additions of \$707.5 million.

Deductions from Plan Net Assets reflect SDCERS' administration of lifetime retirement annuities, survivor benefits, and permanent disability benefits. The costs of these programs include recurring pension benefit payments and refunds of contributions to terminated members. Deductions for FY 2010 were \$340.4 million, an increase of \$17.4 million from FY 2009 deductions of \$323.0 million.

A comparative summary of additions and deductions is set out in Table 2 below.

Table 2: Changes in Plan Net Assets (Dollars in Thousands)

	2010	2009	Total Percentage Change
Additions:			
Plan Sponsor Contributions	\$207,334	\$172,850	20.0%
Member Contributions and Other Contributions	73,347	75,740	-3.2
Net Investment Earnings (Losses)	491,338	(956,097)	151.4
Total Additions	\$772,019	\$(707,507)	209.1%
Deductions:			
Benefit Payments	296,554	277,131	7.0
Refunds of Member Contributions	3,478	4,069	-14.5
Administrative Expenses	14,968	14,726	1.6
DROP Interest Expense	25,375	27,098	-6.4
Total Deductions	\$340,375	\$323,024	5.4%
Changes in Plan Net Assets	\$431,644	\$(1,030,531)	141.9%

FY 2010 plan sponsor contributions totaled \$207.3 million, an increase of \$34.5 million (20.0%) compared to contributions of \$172.9 million in FY 2009. The Annual Required Contribution (ARC) for all three plan sponsors in FY 2010 was lower than, or equal to, the ARC in FY 2009. However, the City's contribution exceeded their ARC due to making a payment in settlement of a legal claim. (See *Note 9. Legal Action*, for further details of the William J. McGuigan, et al. v. City of San Diego case.) In addition, the Airport made a voluntary payment in excess of their ARC in order to achieve certain funding level thresholds. For further information about plan sponsor contributions, see *Note 4. Contributions* in the Notes to the Financial Statements and the Schedules of Plan Sponsor Contributions in the Required Supplementary Information.

FY 2010 member contributions and member contributions paid by plan sponsors totaled \$73.3 million, down \$2.4 million, or 3.2%, from FY 2009. A \$13.0 million decrease in member contributions paid by the plan sponsor was offset by a \$10.6 million increase in contributions from members.

In FY 2010, net investment earnings totaled \$491.3 million, an increase of \$1.447 billion (151.4%) due to improved investment performance over FY 2009. Appreciation in the fair value of equity holdings accounted for \$1.132 billion of the increase, real estate holdings improved by \$152.5 million, and fixed income holdings added another \$179.3 million. Dividend, interest and other income of \$103.4 million decreased \$19.5 million from FY 2009.

A report on SDCERS' investment activity by Hewitt EnnisKnupp, SDCERS' investment consultant, is provided in the Investment Section. This report provides commentary on specific asset class investment returns, index returns and peer group performance. The Investment Section also includes information about SDCERS' FY 2010 and long-term investment performance.

SDCERS' one-year investment performance as of June 30, 2010 was 13.4%, compared to -19.2% as of June 30, 2009. According to the Hewitt EnnisKnupp database of public fund performance, SDCERS' investment performance was in the 46th percentile for the year ended June 30, 2010. Longer-term performance has been stronger, however, and SDCERS ranks in the top 38% and 9% over the five- and ten-year periods ended June 30, 2010.

In FY 2010, member benefit payments totaled \$296.6 million, \$19.4 million (7.0%) more than FY 2009's payments of \$277.1 million. A 2.9% increase in the number of total retirees in FY 2010 and annual cost of living increases contributed to the increased payments.

In FY 2010, refunds of member contributions totaled \$3.5 million, a \$0.6 million decrease compared to FY 2009 refunds. The annual fluctuation in refunds of member contributions is not indicative of any notable trend.

FY 2010 administrative expenses totaled \$15.0 million, an increase of \$0.3 million (1.6%) over FY 2009 expenses of \$14.7 million. Increased legal costs associated with both ongoing and new litigation helped drive the higher level of expenses. See the Schedule of Payments to Consultants in the Other Supplementary Information of the Financial Section for more details.

FY 2010 Deferred Retirement Option Plan (DROP) interest expenses totaled \$25.4 million, a decrease of \$1.7 million (6.4%) from FY 2009 expenses of \$27.1 million.

Analysis of Balances and Results by Plan Sponsor

Tables 3 and 4 below summarize and compare SDCERS' financial results for the current and prior fiscal year by plan sponsor.

Table 3: Plan Net Assets by Sponsor (Dollars in Thousands)

	As of June 30, 2010			As of June 30, 2009		
	City	Port	Airport	City	Port	Airport
Cash & Cash Equivalents	\$377,795	\$20,483	\$6,235	\$350,583	\$19,454	\$4,898
Receivables	78,720	4,619	1,689	101,158	6,235	1,940
Investments, at Fair Value	3,582,071	194,204	59,124	3,224,178	178,915	45,042
Securities Lending Cash Collateral	459,663	24,921	7,587	369,424	20,500	5,161
Capital Assets plus Prepaid Expenses	1,518	82	25	1,260	70	18
Total Assets	\$4,499,767	\$244,309	\$74,660	\$4,046,603	\$225,174	\$57,059
Current Liabilities	139,564	7,480	2,278	197,822	18,109	2,746
DROP Liabilities	382,002	8,417	864	353,227	7,001	530
Securities Lending Obligations	459,663	24,921	7,587	369,424	20,500	5,161
Total Liabilities	\$981,229	\$40,818	\$10,729	\$920,473	\$45,610	\$8,437
Plan Net Assets	\$3,518,538	\$203,491	\$63,931	\$3,126,130	\$179,564	\$48,622

City plan net assets of \$3.519 billion at June 30, 2010 were up \$393 million (12.6%) from \$3.126 billion at June 30, 2009. Investment earnings of \$460 million in FY 2010 helped generate the positive change in plan net assets.

Port plan net assets of \$203.5 million at June 30, 2010 were up \$23.9 million (13.3%) from \$179.6 million at June 30, 2009. The Port experienced \$25.5 million of investment earnings in FY 2010 which contributed to the increase in net assets.

Airport plan net assets of \$63.9 million at June 30, 2010 were up \$15.3 million (31.5%) from \$48.6 million at June 30, 2009. In addition to investment earnings, relatively higher plan sponsor and member contributions than the other two plan sponsors contributed to the 31.5% increase in plan assets.

Table 4: Changes in Plan Net Assets by Sponsor (Dollars in Thousands)

	For the year ended June 30, 2010			For the year ended June 30, 2009		
	City	Port	Airport	City	Port	Airport
Additions:						
Plan Sponsor Contributions	\$192,533	\$7,201	\$7,600	\$162,475	\$7,340	\$3,035
Member Contributions and Other Contributions	65,746	4,547	3,054	67,363	5,035	3,342
Net Investment Earnings (Losses)	459,879	25,534	5,925	(897,544)	(47,530)	(11,023)
Total Additions	\$718,158	\$37,282	\$16,579	\$(667,706)	\$(35,155)	\$(4,646)
Deductions:						
Benefit Payments	283,631	12,038	885	265,477	10,997	657
Refunds of Member Contributions	3,314	101	63	3,840	186	43
Administrative Expenses	13,921	758	289	13,763	696	267
DROP Interest Expense	24,884	458	33	26,504	540	54
Total Deductions	\$325,750	\$13,355	\$1,270	\$309,584	\$12,419	\$1,021
Changes in Plan Net Assets	\$392,408	\$23,927	\$15,309	\$(977,290)	\$(47,574)	\$(5,667)

City plan net assets increased \$392.4 million in FY 2010, an improvement of \$1.370 billion over the decrease experienced in FY 2009. Net investment earnings of \$459.9 million, which showed a year-over-year change of \$1.357 billion, accounted for most of the improvement. Plan sponsor contributions in FY 2010 were up \$30.1 million (18.5%) over FY 2009, while member contributions in FY 2010 were down 2.4% from FY 2009. Benefit payments of \$283.6 million were up \$18.2 million (6.8%) in FY 2010, reflecting a combination of increased number of retirees, cost of living adjustments and higher average benefit payment amounts. DROP interest expense of \$24.9 million was down \$1.6 million, or 6.1% from FY 2009 reflecting a lowering of the DROP interest crediting rate.

Port plan net assets increased \$23.9 million in FY 2010 compared to a decline of \$47.6 million in FY 2009. Driving this change, net investment earnings were \$25.5 million in FY 2010 compared to net investment losses of \$47.5 million in FY 2009. Plan sponsor and member contributions in FY 2010 were down 1.9% and 9.7%, respectively, compared to FY 2009. Benefit payments were up \$1.0 million (9.5%) in FY 2010, reflecting an increased number of retirees and cost of living adjustments in FY 2010. Year-over-year changes in other deduction line items were not significant.

Airport plan net assets increased \$15.3 million in FY 2010, compared to a decline of \$5.7 million in FY 2009. Net investment earnings of \$5.9 million augmented plan sponsor and member contributions of \$7.6 million and \$3.1 million, respectively. Total deductions were \$1.3 million in FY 2010, up \$0.2 million from FY 2009 due mainly to increased benefit payments.

Post-Employment Healthcare Benefit Plan (HCB Plan)

The City's Post-employment Healthcare Benefit Plan funds are not part of the SDCERS trust fund and are reported in the City's financial statements.

Financial Section

San Diego City Employees' Retirement System

Statement of Plan Net Assets

As of June 30, 2010 (with Comparative Totals as of June 30, 2009) (Dollars in Thousands)

	2010				2009
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ASSETS					
Cash and Cash Equivalents					
Cash or Equity in Pooled Cash and Investments with Wells Fargo Bank and the City of San Diego	\$325	\$18	\$5	\$348	\$3,199
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	377,470	20,465	6,230	404,165	371,736
Total Cash and Cash Equivalents	377,795	20,483	6,235	404,513	374,935
Receivables					
Plan Sponsors and Member Contributions	3,249	162	98	3,509	3,160
Members - Purchased Service Contracts	8,708	846	492	10,046	11,536
Accounts Receivable - Other	166	-	-	166	420
Accrued Interest Receivable	11,833	642	195	12,670	13,140
Securities Sold	54,764	2,969	904	58,637	81,077
Total Receivables	78,720	4,619	1,689	85,028	109,333
Investments, at Fair Value					
Short-Term Investments	34,037	1,845	562	36,444	33,311
Domestic Fixed Income Securities	771,345	41,819	12,731	825,895	861,555
International Fixed Income Securities	142,968	7,751	2,360	153,079	143,677
Domestic Equity Securities	1,649,100	89,407	27,219	1,765,726	1,444,848
International Equity Securities	612,149	33,188	10,104	655,441	614,246
Real Estate	337,146	18,279	5,565	360,990	350,498
Private Equity	35,326	1,915	583	37,824	-
Total Investments	3,582,071	194,204	59,124	3,835,399	3,448,135
Securities Lending Cash Collateral	459,663	24,921	7,587	492,171	395,085
Total Investments Including Securities Lending Cash Collateral	4,041,734	219,125	66,711	4,327,570	3,843,220
Prepaid Expenses	339	18	6	363	73
Properties at Cost, Net of Accumulated Depreciation of \$602 and \$594, respectively	1,179	64	19	1,262	1,275
TOTAL ASSETS	\$4,499,767	\$244,309	\$74,660	\$4,818,736	\$4,328,836
LIABILITIES					
Accounts Payable	\$2,215	\$120	\$37	\$2,372	\$1,218
Accrued Investment Fees	7,627	413	126	8,166	4,541
Accrued Wages and Benefits	751	41	12	804	783
Employer Contribution Advances	-	-	-	-	7,200
DROP Liability	382,002	8,417	864	391,283	360,758
Net Pension and Other Post Employment Obligations	1,586	-	-	1,586	1,235
Securities Purchased	127,385	6,906	2,103	136,394	203,700
Securities Lending Obligations for Cash Collateral	459,663	24,921	7,587	492,171	395,085
TOTAL LIABILITIES	\$981,229	\$40,818	\$10,729	\$1,032,776	\$974,520
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$3,518,538	\$203,491	\$63,931	\$3,785,960	\$3,354,316

For a full understanding of the Statement of Plan Net Assets, please see the accompanying Notes to the Financial Statements.

San Diego City Employees' Retirement System

Statement of Changes in Plan Net Assets

For the year ended June 30, 2010 (with Comparative Totals for the year ended June 30, 2009)

(Dollars in Thousands)

	2010				2009
	City of San Diego	Unified Port District	Airport Authority	Total	Total
ADDITIONS					
Contributions					
Plan Sponsor	\$192,533	\$7,201	\$7,600	\$207,334	\$172,850
Member Portion Paid by Plan Sponsor	7,378	3,080	1,855	12,313	25,284
Member	54,158	1,380	802	56,340	45,362
Member for Purchased Service	3,560	17	359	3,936	4,167
Earned Interest on Purchased Service Installment Contract	650	70	38	758	927
Total Contributions	258,279	11,748	10,654	280,681	248,590
Investment Earnings					
Net Appreciation (Depreciation) in Fair Value of Investments					
Equity Securities	265,369	14,284	3,353	283,006	(848,833)
Fixed Income Securities	135,803	8,008	1,676	145,487	(33,800)
Real Estate	(22,674)	(1,284)	(291)	(24,249)	(176,723)
Private Equity	5,954	330	89	6,373	-
Total Net Appreciation (Depreciation) in Fair Value of Investments	384,452	21,338	4,827	410,617	(1,059,356)
Dividend Income	44,125	2,440	614	47,179	53,321
Interest Income	39,036	2,155	536	41,727	50,102
Real Estate Income	11,644	645	164	12,453	14,263
Other Income	274	15	4	293	325
Securities Lending Income					
Gross Earnings	2,849	157	42	3,048	11,607
Less: Borrower Rebates & Bank Charges	(1,190)	(66)	(18)	(1,274)	(6,698)
Net Securities Lending Income	1,659	91	24	1,774	4,909
Total Investment Income (Loss)	481,190	26,684	6,169	514,043	(936,436)
Investment Expenses	(21,311)	(1,150)	(244)	(22,705)	(19,661)
Total Net Investment Earnings (Loss)	459,879	25,534	5,925	491,338	(956,097)
TOTAL ADDITIONS	\$718,158	\$37,282	\$16,579	\$772,019	\$(707,507)
DEDUCTIONS					
Benefits Payments					
Monthly Retirement and Disability Allowances	\$283,118	\$12,018	\$851	\$295,987	\$266,384
13th Check	13	3	-	16	4,858
Corbett Benefit	139	-	-	139	5,526
Death Benefit	361	17	34	412	363
Total Benefit Payments	283,631	12,038	885	296,554	277,131
Refunds of Member Contributions	3,314	101	63	3,478	4,069
Administrative Expenses	13,921	758	289	14,968	14,726
DROP Interest Expense	24,884	458	33	25,375	27,098
TOTAL DEDUCTIONS	\$325,750	\$13,355	\$1,270	\$340,375	\$323,024
NET INCREASE (DECREASE)	392,408	23,927	15,309	431,644	(1,030,531)
NET ASSETS AT JULY 1	3,126,130	179,564	48,622	3,354,316	4,384,847
NET ASSETS AT JUNE 30	\$3,518,538	\$203,491	\$63,931	\$3,785,960	\$3,354,316

For a full understanding of the Statement of Changes in Plan Net Assets, please see the accompanying Notes to the Financial Statements.

Financial Section

San Diego City Employees' Retirement System
Statement of Fiduciary Assets and Liabilities - Agency Funds
As of June 30, 2010 (Dollars in Thousands)

ASSETS	City	Port	Total
Cash and Cash Equivalents			
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	\$15	\$1	\$16
Total Cash and Cash Equivalents	<u>15</u>	<u>1</u>	<u>16</u>
TOTAL ASSETS	<u>\$15</u>	<u>\$1</u>	<u>\$16</u>
LIABILITIES			
Sundry Trust Liability	\$15	\$1	\$16
TOTAL LIABILITIES	<u>15</u>	<u>1</u>	<u>16</u>
NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

For a full understanding of the Statement of Fiduciary Assets and Liabilities, please see the accompanying Notes to the Financial Statements.

San Diego City Employees' Retirement System
Notes to the Financial Statements
June 30, 2010

FINANCIAL STATEMENTS

The following information supplements the audited financial statements of SDCERS. *Note 9. Legal Action* and *Note 10. Subsequent Events* provide information regarding litigation that may have a financial impact on SDCERS or circumstances that may have occurred after June 30, 2010 through the date of the auditor's report.

1. Summary of Significant Accounting Policies

Basis of Accounting

SDCERS' financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The U.S. Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, established financial reporting standards for defined benefit pension plans.

In March 2007, the Board adopted a Declaration of Group Trust, effective July 1, 2007, to fulfill requirements in the City Charter and Municipal Code that the assets of each SDCERS Plan be used to pay benefits and expenses relating only to that Plan. Under the Group Trust, the City, Port and Airport plans are legally treated as separate plans. Unlike a multiple-employer plan, under a group trust the assets of one employer's plan are not legally available to pay benefits under any other employer's plan if one or more of the employers becomes insolvent. Assets of each sponsor's plan are pooled for investment purposes only.

The City, Port and Airport approved their respective Participation and Administration Agreements, and in September 2007, the San Diego City Council adopted a necessary enabling resolution approving each Agreement. To confirm the separation of the City, Port and Airport plans, SDCERS filed requests with the IRS for separate determination letters for the Group Trust, City, Port and Airport. The Internal Revenue Service issued a favorable determination letter for the Group Trust in September 2009 and for the Airport retirement plan and trust in September 2010. A determination on the applications for the City's and Port's retirement plan and trusts remain pending. Separate financial statements are presented in this CAFR, as required by GASB Statement No. 25 for pension trusts that administer more than one plan. Separate statements are presented for FY 2010 only, in accordance with GASB requirements.

SDCERS is also the fiduciary for agency funds for the City's and Port's Preservation of Benefit Plan. The agency funds account for assets held by SDCERS in a trustee capacity or as an agent on behalf of the City and Port. The agency funds are custodial in nature and do not measure the results of operations. In November 2006, SDCERS filed a request with the IRS for a private letter ruling approving the Preservation of Benefit (POB) Plans established by the City, the Port and the Airport. In October 2008, the IRS issued three Private Letter Rulings approving the three POB Plans and confirming that each plan is a qualified governmental excess benefit arrangement under IRC Section 415(m), established to pay promised benefits to retirees and beneficiaries of the defined benefit (DB) plans that exceed the IRC Section 415(b) limits. See *Note 7. Preservation of Benefit Plan Activity* for additional information.

SDCERS' financial statements are prepared using the accrual basis of accounting. SDCERS is considered part of the City's financial reporting entity, and SDCERS' financial statements are included in the City's Comprehensive Annual Financial Report (City's CAFR).

Member contributions are recognized in the period in which they are due. Plan sponsor contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due in accordance with SDCERS' Group Trust. SDCERS' investments are stated at fair value. Investment income is recognized in accordance with GASB Statement No. 25 and is stated net of investment manager fees and related expenses.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

New Governmental Accounting Standards

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for financial statements for periods beginning after June 15, 2009. The requirements of this new standard were effective for SDCERS for the fiscal year ended June 30, 2010. Pursuant to the requirements of this statement, SDCERS has provided a summary of derivative instrument activities during the reporting period and the related risks. The required disclosures can be found in *Note 3. Deposits and Investments*.

In July 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which became effective for financial statements for periods beginning after June 15, 2009. The Statement provides guidance regarding identifying, accounting for, and reporting intangible assets. This statement had no impact on SDCERS' financial statements for the fiscal year ended June 30, 2010.

Cash or Equity in Pooled Cash and Investments on Deposit with Wells Fargo Bank and the City of San Diego

Prior to July 2009, SDCERS participated in the City's cash and investment pool that is available to all departments of the City and other related entities for which the City is the depository. The credit risk for this pool is disclosed in the notes to the City's CAFR. Interest is earned on the pooled funds. In June 2009, SDCERS opened accounts with Wells Fargo Bank from which retiree benefits and operational expenses are paid. The City now funds only the cash flow associated with the salary expense of SDCERS' employees. SDCERS had a total of \$0.3 million in deposits and pooled cash as of June 30, 2010.

Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents

The balance in the audited financial statements of Cash and Cash Equivalents on Deposit with the Custodial Bank and Fiscal Agents of SDCERS' investment managers totaled \$404.2 million as of June 30, 2010.

Receivables

SDCERS' receivables reflect accrued employer and employee contributions due to SDCERS and member contributions for executed purchase of service contracts where payment is pending. See *Note 4. Contributions* for additional discussion and disclosure regarding purchase of service contracts.

In accordance with GASB Statement No. 25, securities sold represents a receivable of cash under trade date accounting. Cash is received as of the transaction settlement date, which is typically trade date plus one to three business days.

Investments

The Board has the authority to delegate investment management duties to outside advisors, to seek the advice of outside investment counsel, and to provide oversight and monitoring of the investment managers it hires. Additional discretion beyond the City Charter is provided for under the California State Constitution and other relevant authorities whereby the Board may, at its discretion, invest funds in any form or type of investment, financial instrument, or financial transaction. SDCERS' agents, in SDCERS' name, manage all investments, which are stated at fair value in the accompanying Statement of Plan Net Assets. SDCERS' custodian, State Street, provides the market values of exchange traded assets. Through its agents, SDCERS also holds investments in non-publicly traded institutional investment funds. These institutional investment funds are comprised of exchange traded securities, the market values of which are provided by the respective custodians. Directly-owned real estate assets are stated at appraised values as determined by SDCERS' real estate managers and third-party appraisal firms. Private equity assets are valued by the private equity managers giving consideration to the financial condition and operating results of the portfolio companies, and other factors deemed relevant. These fair values are reviewed by SDCERS' Private Equity Discretionary Consultants.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

Capital Assets

Purchased capital assets are recorded at historical cost. Assets are depreciated using the straight-line method over the following useful lives:

Office Equipment	10-15 years
Computer Equipment	3 years

Liabilities

Liabilities reflect accrued financial obligations of SDCERS as of June 30, including the repayment of securities lending collateral at a future date. In accordance with GASB Statement No. 25, securities purchased represent a payable of cash that is required under trade date accounting to settle pending purchases on a settlement date basis, which is typically trade date plus one to three business days. Also included within Liabilities are DROP reserves. DROP is a voluntary program created by SDCERS' plan sponsors to provide members with an alternative method to accrue benefits in SDCERS. See the Actuarial Section for further details on the DROP program. In addition, a Net Pension Obligation (NPO) and Net Other Post Employment Obligation (OPEB) is shown representing that portion of the City's NPO and OPEB that is apportioned to SDCERS employees.

Expenses

SDCERS' administrative expenses are paid from plan assets. Fees for investment management, actuarial services, custodial bank services and other operational costs are netted against annual additions to plan assets.

Income Taxes

Under Internal Revenue Code Section 401(a) and California Revenue and Taxation Code Section 23701, SDCERS' Group Trust and the three separate defined benefit plans participating in the Group Trust are exempt from federal and state income taxes. Accordingly, no provision for income taxes is made in the financial statements. While a determination letter is not required for a defined benefit plan to be tax-qualified, it confirms SDCERS' status as a qualified governmental pension plan. In June and August 2008, SDCERS filed applications for determination letters for the Group Trust and for the separate plans and trusts sponsored by the City, Port and Airport. The Internal Revenue Service issued a favorable determination letter for the Group Trust in September 2009 and for the Airport plan and trust in September 2010. The applications for the City and Port plans and trusts remain pending.

Use of Estimates

The preparation of SDCERS' financial statements in conformity with GAAP requires SDCERS' management to make estimates and assumptions that affect the reported amounts of Net Assets Held in Trust for Pension Benefits as of the date of the financial statements. These estimates also affect the actuarial information included in the footnotes and the Required Supplementary Information as of the valuation date, the changes in plan net assets during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements.

Comparative Totals

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for the prior year information to be presented in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with SDCERS' financial statements for the year ended June 30, 2009, from which the summarized information was derived.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

2. Plan Descriptions

General

SDCERS administers three separate defined benefit pension plans for the City, Port and Airport, and SDCERS provides service retirement, disability retirement, death, and survivor benefits to its participants. Employees of the Port became members of SDCERS in 1963. Pursuant to an amendment to the San Diego City Charter in 2002, the Port contracts directly with SDCERS to administer its defined benefit plan. On January 1, 2003, the State of California established the Airport as a separate agency. In 2003, the Airport entered into an agreement with SDCERS to have SDCERS administer its defined benefit plan.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified multiple employer defined benefit plan for the City, Port and Airport. However, as of July 1, 2007, the City, Port and Airport plans were separated into independent, qualified, single employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts were pooled in the SDCERS Group Trust, which was established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS acts as a common, independent investment and administrative agent for the City, Port and Airport, whose plans cover all eligible employees. In a defined benefit plan, pension benefits are actuarially determined by a member's age at retirement, number of years of service credit, and final compensation, typically based on the highest salary earned over a one-year or three-year period. SDCERS also coordinates the benefits for the City's post-employment healthcare benefit plan.

The Port and Airport plans provide for five-year vesting for employees to be eligible to receive pension benefits. Beginning January 1, 2009, new Port employees do not begin to earn a benefit until their sixth year of employment. The City plan requires ten years of service for its employees to vest for a pension benefit. Beginning on January 3, 2003, the City's ten years of service can be a combination of time worked (service earned) and purchased service except for employees hired after July 1, 2005.

SDCERS is included in the City's CAFR as a blended component unit and reported as a pension trust fund in its fiduciary funds.

Membership

All City, Port and Airport employees receiving employment benefits are eligible to participate in SDCERS. Salaried employees hired on or after August 11, 1993, became members of SDCERS upon employment, except for elected officers who have the option to join.

SDCERS' participants consist of Retirees (retired members and beneficiaries receiving benefits, and DROP participants) and Members (active members and inactive members entitled to benefits but not yet receiving them).

The following membership table provides information on the number of members by category for each plan sponsor. SDCERS' total number of participants increased by 109 in FY 2010. This was comprised of a net decrease of 116 Members and increase of 225 Retirees.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

As of June 30, 2010

	City General Members	City Safety Members	Port All Members	Airport All Members	Total Members
Active	5,694	2,426	532	347	8,999
Inactive	2,341	533	290	72	3,236
Retirees	4,019	2,662	360	20	7,061
DROP Participants	536	364	42	6	948
Totals	12,590	5,985	1,224	445	20,244

City Post-Employment Healthcare Benefit Plan (HCB Plan)

Pursuant to the San Diego Municipal Code, SDCERS processes health insurance premium payments and healthcare reimbursement requests pertaining to the City's post-employment healthcare benefit plan for eligible retirees. Post-employment healthcare benefits for members retiring from City employment are based on their health-eligibility status. SDCERS also coordinates a special healthcare benefit for spouses and dependents of eligible City employees killed in the line of duty. The HCB Plan is funded by the City and reported in its CAFR.

3. Deposits and Investments

Cash

At June 30, 2010, SDCERS' cash or equity in pooled cash and investments was \$0.3 million. Cash and cash equivalents on deposit with custodial bank and fiscal agents was \$404.2 million, which includes cash collateral from market neutral portfolios of \$121.4 million, cash collateral for SDCERS' cash overlay program of \$58.5 million, and residual cash held in each manager's portfolio, which is invested overnight by SDCERS' custodial bank, of \$163.3 million, and cash balances available to pay benefits and expenses of \$61.0 million. SDCERS does not have a target allocation to cash; any cash or cash equivalent balances on deposit are reserved for paying benefits and SDCERS' operational expenses.

Investments

The Board has exclusive authority over the administration and investment of SDCERS' Trust Fund assets pursuant to Section 144 of the Charter of the City and the California State Constitution Article XVI, Section 17.

The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board may also invest in additional investments as approved by resolution of the City Council. These investments include bonds, notes or other obligations, real estate investments, common stock, preferred stock, private equity and pooled vehicles. The risks and correlations of each asset class and investment manager are considered relative to an entire portfolio. Investment policies permit the Board to invest in financial futures contracts provided the contracts do not hedge SDCERS' Trust Fund portfolio. Financial futures contracts are recorded at market value each day and must be settled at expiration date. Changes in the market value of the contracts results in the recognition of a gain or loss under GASB Statement No. 25.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

Investment earnings are recorded in accordance with GASB Statement No. 25. Net investment income includes the net appreciation/depreciation in the fair value of investments, interest income, dividend income, and other income not included in the appreciation/depreciation in the fair value of investments, less total investment expenses, including investment management and custodial fees and all other significant investment-related costs. SDCERS had current year realized gains that totaled \$233.3 million for the year ended June 30, 2010. Pursuant to the San Diego Municipal Code, realized gains and losses determine whether certain contingent benefits will be paid each fiscal year.

Through its investment objectives and policies, the Board has placed considerable importance on both generating a reasonable rate of return above inflation and on the preservation of capital. Investments are made only after the risk/reward trade-offs are clearly understood.

Securities Lending

SDCERS has entered into an agreement with State Street, its Custodian Bank, to lend domestic and international equity and fixed income securities to broker-dealers and banks in exchange for pledged collateral that will be returned for the same securities plus a fee in the future. All securities loans can be terminated on demand by either the lender or the borrower.

State Street manages SDCERS' securities lending program and receives cash and/or securities as collateral. Borrowers are required to deliver collateral for each loan equal to at least 100% of the market value of the loaned securities. State Street does not have the ability to pledge or sell collateral securities delivered absent a borrower default. During FY 2010, SDCERS had no credit risk exposure to borrowers because the amounts provided to State Street on behalf of SDCERS, in the form of collateral plus accrued interest, exceeded the amounts broker-dealers and banks owed to State Street on behalf of SDCERS for securities borrowed. In addition, State Street has indemnified SDCERS by agreeing to purchase replacement securities or return cash collateral if a borrower fails to return or pay distributions on a loaned security. SDCERS incurred no losses during the fiscal year resulting from a default of the borrowers or State Street. Non-cash collateral (securities and letters of credit) cannot be pledged or sold without a borrower default and are therefore not reported as an asset of SDCERS for financial reporting purposes.

When lending its securities on a fully collateralized basis, SDCERS may encounter various risks related to securities lending agreements. These risks include operational risk, borrower or counterparty default risk and collateral reinvestment risk. During the fiscal year, the credit markets became more normalized compared to the prior year. Liquidity in the markets, as well as credit spreads, improved. The Net Asset Value (NAV) of the collateral pools rebounded and continue to perform without incurring any losses. State Street is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, and all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws.

As of June 30, 2010, securities on loan collateralized by cash had a fair value of \$476.8 million, and a collateral value of \$492.2 million, which was reported in the assets and liabilities in the accompanying Statement of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. As of June 30, 2010, securities on loan collateralized by securities, irrevocable letters of credit, or tri-party collateral had a fair value of \$20.5 million, and a collateral value of \$21.5 million, which were not reported in the assets or liabilities in the accompanying Statement of Plan Net Assets for the Group Trust in accordance with GASB Statement No. 28. The total collateral pledged to SDCERS at fiscal year end June 30, 2010, for its securities lending activities was \$513.7 million.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

The cash collateral received for lent securities is invested by State Street, together with the cash collateral of other lenders of securities of qualified tax-exempt plans, in a collective investment pool. Because the securities loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. As of June 30, 2010, SDCERS had \$482.4 million invested in the domestic (USD) collateral pool, which had an average duration of 29.64 days and an average weighted maturity of 244.18 days. Beginning in FY 2007, the securities lending program was expanded to allow the acceptance of Euro (EUR) denominated collateral. As of June 30, 2010, SDCERS had \$9.7 million invested in the Euro collateral pool, which had an average duration of 29 days and an average weighted maturity of 445 days.

Portfolio Risk – Credit, Interest Rate, and Foreign Currency

SDCERS' investment portfolio includes fixed income strategies to diversify the investment portfolio. The percentage allocated to these strategies is based on efficient model portfolios developed from an annual asset allocation study. The returns of fixed income strategies vary less than equity returns. SDCERS' target asset allocation policy is reviewed each year to reflect changes in capital market assumptions. SDCERS' target allocation to fixed income strategies as of June 30, 2010 was 26%. The fixed income allocation is externally-managed and is comprised as follows: 22% to core-plus domestic fixed income, which is benchmarked against the Barclays Capital Aggregate Bond Index, and 4% to non-U.S. fixed income, which is benchmarked to the Citigroup Non-U.S. Government Bond index. A 3% target allocation to convertible bond securities, which is benchmarked to the Merrill Lynch Convertible Index, All Qualities, is not included in the fixed income allocation. However, given that these convertible securities have fixed income attributes, the convertible bond allocation is included in the Portfolio Risk analysis. SDCERS' overall portfolio diversification limits the fixed income invested in the debt security of any one issuer to 10% of the portfolio at the time of the initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government) to minimize overall market and credit risk.

SDCERS also has a 5% target allocation to an unsecuritized equity market neutral strategy which is benchmarked to the Citigroup 90 day Treasury Bills plus 3%. The equity market neutral strategy is no longer considered part of the fixed income allocation. This strategy uses equity securities held long and sold short with the cash proceeds of the short sales held in a cash account invested in U.S. Government Federal Funds. Due to the nature of the securities in this strategy, there is no credit or interest rate risk.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2010

Credit Risk

Credit risk is the risk that an issuer or other underlying borrower to a debt instrument will not fulfill its obligations. Nationally-recognized statistical rating organizations (NRSROs) assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors. SDCERS employs two core-plus bond managers that invest in a wide variety of fixed income and derivative securities. The investment management agreements between SDCERS and its two core-plus bond managers contain specific investment guidelines that identify permitted fixed income investments. One of SDCERS' domestic core-plus fixed income managers has tactical discretion to invest in non-U.S. fixed income securities while the other domestic core-plus fixed income manager is limited to U.S. fixed income investments only.

The permitted securities and derivatives for the two domestic core-plus fixed income managers include U.S. Government and agency obligations, collateralized mortgage obligations, U.S. corporate securities, and asset backed securities. Investment guidelines include minimum average portfolio quality of A rating (market value weighted); and, minimum credit quality at time of purchase of 80% Baa or above, and 20% B for a domestic core-plus fixed income manager; and Ba/BB for core-plus fixed income manager with tactical discretion to invest in non-U.S. fixed income strategies.

The permitted securities for SDCERS' domestic convertible bond portfolio include convertible bonds, convertible preferred stocks, common stocks (due to forced conversions) and synthetic convertibles. SDCERS' domestic convertible bond portfolio will generally maintain an average quality rating of at least B.

The permitted securities and derivatives for SDCERS' international fixed income portfolio include investments in developed and emerging markets and derivatives. In developed markets, investments may be made in sovereign and supranationals, Eurodollar bonds, corporates and mortgages. Emerging market investments are defined as sovereign and corporate debt outside the index of the Citi World Govt. Bond Index ex-US. Derivative investments may include interest rate futures, options, swaps, Fx forward contracts and spot transactions. SDCERS' international fixed income portfolio has the following credit and market risk parameters: minimum average portfolio quality of A rating (market value weighted); and, minimum credit quality at time of purchase of BBB- or equivalent rating by at least one of the major rating services, e.g., Moody's, S&P, Fitch.

The following table identifies the credit quality of SDCERS' fixed income strategies based on portfolio holdings as of June 30, 2010.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

Credit Quality of SDCERS' Fixed Income Strategies
(Domestic & International)

As of June 30, 2010

(Dollars in Thousands)

S&P Quality Rating	Total Fair Value	Asset-Backed Securities	Adjustable- Rate Mortgages	Commercial Mortgage-Backed Securities	Collateralized Mortgage Obligations	Corporates ¹	Government & Agency Obligations ²	Mortgage- Backed Securities	Short-Term/ Other
US Treasury	\$174,213	\$-	\$-	\$-	\$-	\$-	\$174,213	\$-	\$-
AAA	322,754	10,537	5,298	8,233	52,362	29,460	216,102	762	-
AA+	27,626	1,852	-	1,616	-	9,235	14,923	-	-
AA	16,117	-	-	-	477	8,309	7,331	-	-
AA-	19,522	2,100	-	4,393	145	12,774	110	-	-
A+	41,779	-	-	9,776	-	21,205	10,798	-	-
A	61,568	-	-	6,415	1,652	49,964	3,537	-	-
A-	31,889	-	-	4,676	-	24,900	2,313	-	-
BBB+	12,276	-	-	94	232	11,950	-	-	-
BBB	11,425	-	-	-	11	11,207	207	-	-
BBB-	22,543	-	-	-	6,698	14,322	1,523	-	-
BB+	7,926	-	-	209	646	7,071	-	-	-
BB	4,399	862	-	-	-	3,371	166	-	-
BB-	11,349	1,397	-	-	970	8,766	216	-	-
B+	4,203	-	-	-	-	4,203	-	-	-
B	4,551	2,700	-	-	298	1,553	-	-	-
B-	1,487	818	-	-	-	669	-	-	-
CCC	24,525	5,306	-	-	19,219	-	-	-	-
CC	424	-	-	-	424	-	-	-	-
NR	214,842	9,835	-	2,612	1,314	140,831	39,853	627	19,770
Totals	\$1,015,418	\$35,407	\$5,298	\$38,024	\$84,448	\$359,790	\$471,292	\$1,389	\$19,770

¹Corporates include convertible bonds from SDCERS' convertible bond manager.

²Includes international and municipal holdings.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk; however, U.S. Government Agency securities have been included in this credit risk disclosure as AAA. NR represents those securities that are not rated by one of the NRSROs.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2010

Custodial Credit Risk

Custodial credit risk is the risk that if a financial institution or counterparty fails, SDCERS would not be able to recover the value of its deposits, investments, or securities. As of June 30, 2010, 100% of SDCERS' investments were held in SDCERS' name, and SDCERS is not exposed to custodial credit risk related to these investments. SDCERS is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. Cash and cash equivalents on deposit with SDCERS' custodial bank totaled \$199.8 million as of June 30, 2010. SDCERS does not have a specific policy relating to custodial credit risk.

SDCERS' custodial bank acts as its securities lending agent. SDCERS is exposed to custodial risk for the securities lending collateral such that certain collateral is received in the form of letters of credit, tri-party collateral or securities collateral. The fair value of securities on loan collateralized by these non-cash vehicles totaled \$20.5 million as of June 30, 2010 and are at risk as the collateral for these loaned securities is not held in SDCERS' name and cannot be sold without a borrower default. The cash collateral held by SDCERS' custodian in conjunction with the securities lending program, which totaled \$492.2 million as of June 30, 2010, is also at risk as it is invested in a pooled vehicle managed by the custodian. The investment characteristics of the collateral pool are disclosed in the Securities Lending section in the Notes to the Financial Statements.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the relative size of an investment in a single issuer. As of June 30, 2010, SDCERS had no single issuer that exceeded 5% of total investments, excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments. With respect to the concentration of credit risk by issue, SDCERS' Investment Policy Statement states that not more than 10% of the fixed income portfolio shall be invested in the debt security of any one issue at the time of initial commitment, except for U.S. Government and Agency obligations. While SDCERS does not have a general investment policy on the concentration of credit risk by issuer, each manager's specific investment guidelines place limitations on the maximum holdings in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fixed income portfolios use duration to measure how a change in interest rates will affect the value of the portfolio. SDCERS does not have a general investment policy that addresses interest rate risk. Rather, each investment manager's specific investment guidelines places limits on each portfolio to manage interest rate risk.

Convertible bonds are generally less sensitive to changes in interest rates and more sensitive to the profitability of the underlying issuer. Company fundamentals are the overriding factor in the bond's return, while fluctuations in interest rates have significantly less impact. The following table identifies the durations of SDCERS' domestic and international fixed income strategies based on portfolio holdings as of June 30, 2010.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

SDCERS' Fixed Income Portfolios (Domestic & International)
Portfolio Duration Analysis as of June 30, 2010
(Dollars in Thousands)

Type of Security	Effective Duration (in years)	Fair Value ^{1,4}
Asset-Backed Securities		
Asset-Backed Securities	2.03	\$35,407
Adjustable Rate Mortgages		
Adjustable Rate Mortgages	1.27	5,298
Commercial Mortgage-Backed Securities		
Commercial Mortgage-Backed Securities	4.58	38,024
Collateralized Mortgage Obligations		
Collateralized Mortgage Obligations	4.38	84,448
Corporate Bonds²		
Corporate Bonds	4.07	244,437
Government & Agency Obligations		
Agency Securities	1.23	28,346
Municipals	9.93	15,126
Other Government Securities	3.38	21,300
Pass-Thru Securities	2.55	122,500
Sovereign Debt Securities	6.57	105,060
Supranational Debt Securities	14.79	4,747
Treasury Securities	6.29	174,213
Mortgage-Backed Securities		
Mortgage-Backed Securities	6.73	1,389
Short-Term/Other³		
Mutual Funds - Fixed Income ⁴	6.92	19,418
Short Term Instruments	0.02	23,583
Total	4.61	\$923,296

¹Fair Value does not include convertible bonds, mutual funds and derivative instruments of \$111,540. These securities do not exhibit interest rate risk and duration cannot be calculated.

²Corporates do not include convertible securities of \$115,353.

³Short Term/Other does not include derivative instruments of \$(3,813).

⁴A Fixed Income Mutual Fund of \$19,418 has been added to this schedule as the duration for this fund was available.

Investments Highly Sensitive to Interest Rate Changes

Certain terms in fixed income securities may increase the sensitivity of their fair values to changes in interest rates. The Portfolio Duration Analysis table above discloses the degree to which SDCERS' investments are sensitive to interest rate changes due simply to the remaining term to maturity. The total value of securities, as of June 30, 2010, that are highly sensitive to interest changes due to factors other than term to maturity are shown in the following table.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

Investments Highly Sensitive to Interest Rate Changes

As of June 30, 2010

(Dollars in Thousands)

Type of Security	Market Value	Percent of Fixed Income Portfolio
Adjustable Rate Notes	\$10,252	1.0%
Asset Backed Securities	14,441	1.4
Floating Rate Notes	29,838	2.9
Interest Only Strips & Inverse Floating Rate Notes	5,172	0.5
Range Notes	3,402	0.3
Total	\$63,105	6.1%

Although SDCERS does not have an investment policy that pertains directly to investments that are highly sensitive to interest changes, this risk is mitigated by diversification of issuer, credit quality, maturity and security selection.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following table represents securities held in a foreign currency as of June 30, 2010.

Foreign Currency Risk¹

As of June 30, 2010

(Dollars in Thousands)

Local Currency Name	Cash	Equity	Fixed Income	Total
Australian Dollar	\$149	\$17,184	\$9,125	\$26,458
Brazilian Real	3	265	33	301
Canadian Dollar	247	23,160	10,606	34,013
Danish Krone	7	6,326	2,884	9,217
Euro Currency	2,604	166,920	94,648	264,172
Hong Kong Dollar	280	19,963	-	20,243
Indonesian Rupiah	-	2,491	-	2,491
Japanese Yen	1,419	127,874	20,821	150,114
Malaysian Ringgit	-	2,338	-	2,338
Mexican Peso	-	-	3,336	3,336
New Zealand Dollar	-	456	-	456
Norwegian Krone	13	3,687	-	3,700
Philippine Peso	-	308	-	308
Pound Sterling	271	113,462	14,051	127,784
Singapore Dollar	144	10,998	-	11,142
South African Rand	-	98	-	98
South Korean Won	-	15,848	2,957	18,805
Swedish Krona	3	14,085	768	14,856
Swiss Franc	142	30,970	-	31,112
Taiwan Dollar	1	6,599	-	6,600
Turkish Lira	-	1,003	-	1,003
Totals	\$5,283	\$564,035	\$159,229	\$728,547

¹The foreign exchange exposure in SDCERS' international equity small cap value portfolio (an institutional mutual fund investment) is not included in this disclosure.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held by SDCERS as an investment. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended to settle trades. A significant component of the diversification benefit of non-domestic investments comes from foreign currency exposure. SDCERS does not have a general investment policy in place to manage foreign currency risk or to hedge against fluctuations in foreign currency exposure. Instead, SDCERS' investment managers may hedge currencies at their discretion pursuant to their specific investment guidelines included in each of their investment management agreements.

Derivative Instruments

In June 2008, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which became effective for financial statements for periods beginning after June 15, 2009. Pursuant to the requirements of this statement, SDCERS has provided a summary of derivative instrument activities during the reporting period and the related risks. As of June 30, 2010, the derivative instruments held by SDCERS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized in the Statement of Changes in Plan Net Assets.

SDCERS' investment managers, as permitted by their specific investment guidelines, may enter into transactions involving derivative financial instruments, consistent with the objectives established by the SDCERS' Investment Policy Statement. These instruments include futures, options, swaps, forwards, warrants and rights. By Board policy, these investments may not be used to leverage SDCERS' portfolio, i.e., use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used in an attempt to enhance the portfolio's performance and/or reduce the portfolio's risk.

All investment derivatives discussed below are addressed in the Portfolio Risk discussion, which precedes this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The following table provides a summary of the derivative instruments outstanding as of June 30, 2010.

Investment Derivative Disclosure (Dollars in Thousands)

Investment Derivative Instruments	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount	Classification	Amount	Notional
Credit Default Swaps	Investment Income / (Loss)	\$(1,510)	Swaps	\$(2,744)	\$27,970
Fixed Income Futures	Investment Income / (Loss)	14,836	Futures	-	1,229,850
Fixed Income Options	Investment Income / (Loss)	(290)	Options	(912)	(163,900)
Foreign Currency Futures	Investment Income / (Loss)	340	Futures	-	1,500
Futures Options Written	Investment Income / (Loss)	563	Options	(156)	(1,187)
Foreign Currency Forwards	Investment Income / (Loss)	5,813	Long Term Instruments	337	-
Index Futures	Investment Income / (Loss)	29,060	Futures	-	82
Interest Rate Swaps	Investment Income / (Loss)	7,913	Swaps	2,556	108,500
Rights	Investment Income / (Loss)	(378)	Common Stock	14	407
TBA Securities	Investment Income / (Loss)	767	Long Term Instruments	588	35,445
Warrants	Investment Income / (Loss)	(3)	Common Stock	-	-
Total Derivative Instruments		\$57,111		\$(317)	\$1,238,667

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

The derivative instruments that are not exchange traded, such as credit default swaps and interest rate swaps, are valued using quoted market prices.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the futures contracts do not have a fair value as of June 30, 2010. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. To-be-announced securities (TBA) are obligations to buy or sell a mortgage-backed security at a future date to be announced. The fair value of the foreign currency forwards and TBAs is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2010.

Counterparty Credit Risk

The following table illustrates the counterparty credit ratings of SDCERS' non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2010:

Counterparty Credit Risk (Dollars in Thousands)

Counterparty Name	Fair Value	S&P Rating
Bank of America N.A.	\$92	A+
Barclays Bank PLC Wholesale	170	AA-
Barclays Capital	74	AA-
BNP Paribas SA	20	AA
Citibank N.A.	62	A+
Credit Suisse Financial Products	19	A+
Credit Suisse London Branch (GFX)	827	A+
CSFB	202	A+
Deutsche Bank AG London	359	A+
HSBC Bank PLC	4	AA
HSBC Bank USA	3	AA
JPMorgan Chase Bank	63	AA-
JPMorgan Chase Bank N.A.	23	AA-
Mellon Bank NA	5	AA-
Merrill Lynch Pierce Fenner & Smith Inc.	5	A
Morgan Stanley and Co. Inc.	3	A
Morgan Stanley and Co. International PLC	700	A
Morgan Stanley Capital Services Inc.	523	A
Royal Bank of Scotland PLC	1,645	A+
UBS AG	88	A+
UBS AG London	13	A+
UBS AG Stamford	16	A+
UBS Securities LLC	84	A+
Total	\$5,000	

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2010 was \$5.0 million. This represents the maximum loss that would be recognized at the

San Diego City Employees' Retirement System
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June 30, 2010

reporting date if all counterparties failed to perform as contracted. At June 30, 2010, SDCERS did not have any significant exposure to counterparty credit risk with any single party. SDCERS does not have any specific policies relating to the posting of collateral or master netting agreements.

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement 40. At June 30, 2010, all of SDCERS' investments in derivative instruments were held in SDCERS' name and were not exposed to custodial credit risk.

Interest Rate Risk

At June 30, 2010, SDCERS was exposed to interest rate risk on its investments in interest rate swaps, options, credit default swaps, and TBA securities. The table below illustrates the maturity periods of these derivative instruments.

Investment Maturities (Dollars in Thousands)

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Interest Rate Swaps	\$2,556	\$46	\$2,081	\$429	\$ -
Fixed Income Options	(912)	(631)	(15)	(266)	-
Futures Options	(156)	(156)	-	-	-
Credit Default Swaps	(2,744)	-	22	3	(2,769)
TBA Securities	588	-	-	-	588
Total	\$(668)	\$(741)	\$2,088	\$166	\$(2,181)

Investments Highly Sensitive to Interest Rate Changes

Interest rate swaps are highly sensitive to changes in interest rates. The table below details the reference rate, fair value and notional amount of these derivative instruments:

Investments Highly Sensitive to Interest Rate Changes

As of June 30, 2010

(Dollars in Thousands)

Investment Type	Reference Rate	Fair Value	Notional
Interest Rate Swaps	Receive Australian Dollar Fixed 4.5%, Pay Australian Dollar Variable 6 month Bank Bill Interest Rate	\$(2)	\$600
Interest Rate Swaps	Receive Australian Dollar Fixed 4.5%, Pay Australian Dollar Variable 3 month LIBOR	(23)	7,900
Interest Rate Swaps	Receive Australian Dollar Fixed 6.0%, Pay Australian Dollar Variable 6 month Bank Bill Interest Rate	84	4,800
Interest Rate Swaps	Receive Brazilian Real Fixed 11.36%, Pay Brazilian Real Variable Brazilian CDI (overnight rate)	16	3,400
Interest Rate Swaps	Receive Brazilian Real Fixed 11.63%, Pay Brazilian Real Variable Brazilian CDI (overnight rate)	-	700
Interest Rate Swaps	Receive Brazilian Real Fixed 11.89%, Pay Brazilian Real Variable Brazilian CDI (overnight rate)	4	1,700
Interest Rate Swaps	Receive Brazilian Real Fixed 11.90%, Pay Brazilian Real Variable Brazilian CDI (overnight rate)	5	3,700
Interest Rate Swaps	Receive Brazilian Real Fixed 12.08%, Pay Brazilian Real Variable Brazilian CDI (overnight rate)	9	3,500
Interest Rate Swaps	Receive Euro Fixed 2.09%, Pay Euro Variable French CPI minus Tobacco	41	1,100
Interest Rate Swaps	Receive Euro Fixed 2.1025%, Pay Euro Variable French CPI minus Tobacco	30	800
Interest Rate Swaps	Receive US Dollar Fixed 2.0%, Pay US Dollar Variable 3 Month LIBOR	399	27,500
Interest Rate Swaps	Receive US Dollar Fixed 3.0%, Pay US Dollar Variable 3 Month LIBOR	1,463	47,100
Interest Rate Swaps	Receive US Dollar Fixed 4.0%, Pay US Dollar Variable 3 Month LIBOR	531	5,700
Total		\$2,557	\$108,500

San Diego City Employees' Retirement System
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June 30, 2010

Foreign Currency Risk

At June 30, 2010, the System was exposed to foreign currency risk on its investments in credit default swaps, interest rate swaps, options and rights denominated in foreign currencies.

Foreign Currency Risk
(Dollars in Thousands)

Currency Name	Credit Default Swaps	Fixed Income Options	Interest Rate Swaps	Rights	Forward Contracts		Total
					Net Payables	Net Receivables	
Australian Dollar	\$ -	\$ -	\$59	\$ -	\$15	\$(369)	\$(295)
Brazilian Real	-	-	33	-	(1)	-	32
Canadian Dollar	-	-	-	-	(217)	137	(80)
Danish Krone	-	-	-	-	(31)	(127)	(158)
Euro Currency	-	(10)	71	14	(4)	224	295
Indian Rupee	-	-	-	-	8	-	8
Japanese Yen	-	-	-	-	1,079	(1)	1,078
Malaysian Ringgit	-	-	-	-	(26)	-	(26)
Mexican Peso	-	-	-	-	-	(2)	(2)
New Russian Ruble	-	-	-	-	(19)	-	(19)
Norwegian Krone	-	-	-	-	89	-	89
Philippine Peso	-	-	-	-	8	-	8
Polish Zloty	-	-	-	-	(229)	-	(229)
Pound Sterling	-	-	-	-	4	(248)	(244)
Singapore Dollar	-	-	-	-	-	-	-
Swedish Krona	-	-	-	-	14	(4)	10
Swiss Franc	-	-	-	-	76	-	76
Yuan Renminbi	-	-	-	-	(39)	-	(39)
Subtotal	-	(10)	163	14	727	(390)	504
Investments Denominated in USD	(16)	-	1,642	-	-	-	1,626
Total	\$(16)	\$(10)	\$1,805	\$14	\$727	\$(390)	\$2,130

In addition to the investments listed in the above table, SDCERS has investments in foreign futures contracts with a total notional value of \$5.0 million. As indicated above, futures variation margin amounts are settled each trading day and recognized as realized gains/(losses) as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2010.

Contingent Features

At June 30, 2010, SDCERS did not hold any positions in derivatives containing contingent features.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

Real Estate

SDCERS' target allocation to real estate is 11%. The Board has established the following portfolio composition targets: 25% in public real estate securities and 75% in private real estate investments. The private portfolio is further diversified with a target of 60% in core real estate and 40% in value-add and opportunistic real estate. No more than 40% of SDCERS' real estate portfolio is allocated to non-U.S. real estate investment opportunities pursuant to a policy adopted by the Board in FY 2007. Unfunded capital commitments as of June 30, 2010 totaled \$225.8 million. As of June 30, 2010, real estate investments totaled \$361.0 million.

Private Equity

SDCERS' target allocation to private equity is 5%. The Board has approved an opportunistic portfolio composition with a focus on value and current income-producing strategies. Unfunded capital commitments as of June 30, 2010 totaled \$268.9 million. As of June 30, 2010, private equity investments totaled \$37.8 million.

4. Contributions

SDCERS' funding policy provides for periodic plan sponsor contributions at actuarially determined amounts designed to accumulate sufficient assets to pay vested benefits as they are earned by SDCERS' members. Contributions are calculated under the Entry Age Normal (EAN) actuarial funding method, in accordance with methodology changes approved by the Board in September and October 2006.

The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability (UAL). The UAL for FY 2011, which began July 1, 2010, is amortized over several different periods. For all Plan Sponsors, the fiscal year ending June 30, 2009 experience loss is amortized over 15 years, the outstanding balance of the June 30, 2008 UAL due to assumption changes is amortized over 29 years, and the outstanding balance for the fiscal year ending June 30, 2008 experience loss is amortized over 14 years. For the City, the outstanding balance of the June 30, 2007 UAL is amortized over 18 years, while for the Port and Airport, such UAL is amortized over 12 years. Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year. Amortized amounts are included as part of the ARC.

The City, Port and Airport make annual plan sponsor contributions to SDCERS based upon the ARC as determined by SDCERS' actuary. In addition, the City and the Airport each made contributions above the ARC amount in FY 2010.

The following table illustrates the required plan sponsors' contribution rates as calculated annually by SDCERS' actuary, Cheiron.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

FY 2010 Contribution Rates (As of July 1, 2009)

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	City of San Diego (June 30, 2008, Actuarial Valuation)					Weighted Total
	General	Elected Officers	Police	Fire	Lifeguard	
Normal Cost ¹	8.46%	19.81%	14.98%	14.35%	16.83%	10.88%
Amortization Payment ^{1,2}	13.97	24.96	20.13	25.63	16.31	16.85
Total Contribution Rate	22.43	44.77	35.11	39.98	33.14	27.73
Total Contribution Rate if paid at the beginning of the year (July 1, 2009)	21.60	33.33	33.80	38.54	31.25	26.71

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego Unified Port District (June 30, 2008, Actuarial Valuation)				Weighted Total
	General	Executives	Police		
Normal Cost ¹	12.46%	12.16%	14.65%		13.05%
Amortization Payment ^{1,2}	4.40	6.38	4.58		4.52
Total Contribution Rate	16.86	18.54	19.23		17.57
Total Contribution Rate if paid at the beginning of the year (July 1, 2009)	16.23	18.00	18.44		16.90

Plan Sponsor Contribution Rates by Member Class, Based on Valuation of:	San Diego County Regional Airport Authority (June 30, 2008, Actuarial Valuation)			Weighted Total
	General	Executives		
Normal Cost ¹	12.65%	14.32%		12.76%
Amortization Payment ^{1,2}	-0.79	-1.07		-0.80
Total Contribution Rate	11.86	13.25		11.96
Total Contribution Rate if paid at the beginning of the year (July 1, 2009)	11.43	13.12		11.54

¹Rates assume that contributions are made uniformly during the plan year.

²To avoid "negative amortization," the amortization payment includes full interest on the UAL.

Members are required to contribute a percentage of their annual salary to each plan in the Group Trust. Contributions vary according to the member's age at the time of enrollment and member's group (e.g., safety, general and elected officers).

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

Member average contribution rates for FY 2010 for each member class are shown below. Averages shown apply to salary amounts over \$400 per month in the case of members with social security integrated benefits.

	City	Port	Airport
General Members*	10.01%	9.70%	9.91%
Safety Members*	12.46%	12.49%	n/a
All Members	10.93%	10.53%	9.91%

*General Members includes Elected Officers and Executives; Safety Members include Police, Fire, and Lifeguard Members, as applicable.

All or part of the member's contribution rate may be subject to a reduction for member contributions paid by the employer, as determined through annual meet and confer negotiations between the employers and employee bargaining groups. The rates above (actuarially determined amounts) are shown before any applicable reduction. Member contributions paid by the employer and related accumulated interest are not refunded to the members at termination; only a member's actual contributions made plus credited interest are refunded to a member at termination of employment, upon the member's request.

In accordance with the FY 2010 salary ordinance, the City paid the following portion of members' contributions, stated as a percentage of a member's salary:

For Elected Officers:	5.89%
For General Members:	0.00% to 3.40%
For Police Members:	0.00%
For Fire Members:	0.00%
For Lifeguard Members:	1.30% to 5.30%

The City's aggregate member contributions made to SDCERS are discounted (prior to being contributed to SDCERS) by the anticipated savings from member terminations from City employment. The discount is 5.00% for general members and 1.00% for safety members.

For FY 2010, the Port paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	6.00% to 7.00%
For Safety Members:	8.80%
For Management Members:	7.50% to 10.30%

For FY 2010, the Airport paid the following portion of members' contributions, stated as a percentage of a member's salary:

For General Members:	7.00%
For Management Members:	8.50%

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2010

Neither the Port nor the Airport discounts its aggregate member contributions to SDCERS by any anticipated savings from member terminations from Port or Airport employment.

SDCERS' members are allowed to purchase certain types of service credit, usually related to periods of missing service credit or missing employee contributions. The San Diego Municipal Code provides that City members may purchase service credit. For Airport members and Port members, their respective plan documents outline the purchase of service credit provisions.

Beginning in 1997, City and Port members became eligible to purchase an additional five years of service credit, in addition to their actual employment service credit. Airport members became eligible to purchase an additional five years of service credit at inception of their Plan on January 1, 2003. The five-year purchase may be applied toward the vesting requirements for the City members, but not for Port or Airport members. The option to purchase an additional five years of service credit was discontinued by the City, Port and Airport for employees hired on or after February 16, 2007, October 1, 2005 and October 3, 2006, respectively.

A member may pay for purchases of service credit by: lump sum payments from personal funds; direct transfers from the City's Supplemental Pension Savings Plan, 401(k) account, Deferred Compensation account, qualified IRAs, or any other qualified retirement plan; or bi-weekly installment payment plans. Both pre-tax and post-tax payment plans have been permitted. However, recent guidance by the Internal Revenue Service will restrict the availability of pre-tax payment plans in the future. The length of the installment contracts varies but generally may not exceed the lesser of 15 years or the member's first eligible retirement date.

On December 19, 2008, the Board approved a revised pricing methodology for purchase of service applications received after that date. The new pricing formula is based on the age and service of each requesting member, with an automated calculator being utilized instead of published tables.

As of June 30, 2010, a total of 585 members were making payments on installment contracts. Service credit purchased under an installment contract is not an actuarial accrued liability of SDCERS until the purchase is paid by the member. A receivable for purchased service contracts (both installment contracts and pending lump sum payments) totaling \$10.0 million has been included in the accompanying Statement of Plan Net Assets for the DB Plan at June 30, 2010.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

5. Reserve Balances

The San Diego Municipal Code authorizes the Board to establish reserve accounts based on the advice of its actuary. Annual adjustments to the Trust Fund's reserves are a result of realized investment gains or losses and member and plan sponsor contributions received. These changes are distributed in accordance with the San Diego Municipal Code.

Reserve balances as of June 30, 2010 (in thousands):

	2010
Reserve for Investments in Properties	\$221
Reserve for Receivables	10,067
Reserve for Member Contributions	751,453
Reserve for Plan Sponsor Contributions	1,144,148
Reserve for Current Retired Members	1,795,172
Plan Continuation Liability	2,180,074
Fund Deficit - Equivalent to Plan Continuation Liability	(2,180,074)
Reserve for Supplemental COLA	7,935
Undistributed Earnings Reserve	155,504
Total Reserves¹	\$3,864,500

¹Total Reserves will differ from Plan Net Assets Held in Trust for Pension Benefits in the audited financial statements as investments are stated at fair value (market value) at June 30 each year. Unrealized losses at June 30, 2010 were \$78.5 million.

Reserve for Investments in Properties. This represents the un-depreciated cost of SDCERS office equipment.

Reserve for Receivables. This represents the balance of funds expected to be received in the future consisting mainly of member contributions for purchase of service credit installment contracts and any invoiced contributions.

Reserve for Member Contributions. This represents the accumulated contributions, plus accumulated allocated interest, held on account for all active and inactive members.

Reserve for Plan Sponsor Contributions. This represents the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating plan sponsors.

Reserve for Current Retired Members. This represents funds sufficient, based upon advice of the actuary, to pay present and future benefits of current retired members. Upon retirement, member contribution balances are transferred from Reserve for Member Contributions to this reserve, along with sufficient funds from the Plan Sponsor Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

Plan Continuation Liability. This represents the portion of the plan's actuarial accrued liabilities that were not funded as of the prior valuation date. It is calculated as the actuarial present value of credited projected benefits minus the actuarial value of assets and totaled for all three plan sponsors; this is the same as the Unfunded Actuarial Liability (UAL) totaled for all three plan sponsors. Values are based on the June 30, 2009 actuarial valuation.

Fund Deficit - Equivalent to Plan Continuation Liability. This represents the dollar amount not reserved for the portion of UAL of the City's, Port's and Airport's plans.

Reserve for Supplemental COLA. These are funds sufficient to pay this benefit to retirees whose effective date of retirement was prior to June 30, 1982 for the rest of their lives or until this reserve is depleted, whichever comes first.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

Undistributed Earnings Reserve. This represents the balance of earnings remaining after the annual distribution to the member and plan sponsor reserve accounts in accordance with the Board-established assumed rate of interest. At the beginning of each fiscal year, any Undistributed Earnings from the prior fiscal year are credited to the Reserve for Plan Sponsor Contributions in order to reduce SDCERS' current liabilities.

6. Funded Status and Actuarial Methods and Assumptions

The funded status of each plan as of June 30, 2009 is as follows (dollar amounts in thousands):

	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAL as A Percentage of Covered Payroll ((b - a) / c)
City	\$4,175,229	\$6,281,636	\$2,106,407	66.5%	\$536,591	392.6%
Port	223,879	288,698	64,819	77.5%	40,370	160.6%
Airport	58,981	67,871	8,890	86.9%	24,693	36.0%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

Additional information as of the latest actuarial valuation follows:

	City	Port	Airport
Valuation date	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent; closed	Level percent; closed	Level percent; closed
Remaining amortization period	18 years for 2007 UAL; 14 years for 2008 UAL; 15 years for 2009 UAL; 29 years for 2008 assumption changes; no negative amortization	12 years for 2007 UAL; 14 years for 2008 UAL; 15 years for 2009 UAL; 29 years for 2008 assumption changes; no negative amortization	12 years for 2007 UAL; 14 years for 2008 UAL; 15 years for 2009 UAL; 29 years for 2008 assumption changes; no negative amortization
Asset valuation method	Smoothed market 25% current market and 75% prior AVA	Smoothed market 25% current market and 75% prior AVA	Smoothed market 25% current market and 75% prior AVA
Actuarial Assumptions:			
- Investment rate of return	7.75%	7.75%	7.75%
- Wage inflation	4.0%	4.0%	4.0%
- Additional merit increase	0.5% - 8.0%	0.5% - 8.0%	1.0% to 5.0%
- Cost of living increase	2%	2%	2%

The complete Actuarial Valuations for the City, Port and Airport are available at www.sdcers.org.

San Diego City Employees' Retirement System
Notes to the Financial Statements (continued)
June 30, 2010

7. Preservation of Benefit Plan (POB Plan) Activity

In October 2008, the IRS issued three Private Letter Rulings approving the City, Port, and Airport POB Plans and confirming that each plan is a qualified governmental excess benefit arrangement under IRC Section 415(m), established to pay promised benefits to retirees and beneficiaries of the DB Plans that exceed the IRC Section 415(b) limits.

The POB Plans are unfunded within the meaning of the federal tax laws, requiring the plan sponsor to fund the Plans on a pay-as-you-go basis. The plan sponsor retains title to any assets, including cash or other investments, that they designate to pay POB Plan benefits. Benefits payable from and the costs of administering the POB Plans, as determined by SDCERS and its actuary, are paid by the respective plan sponsor. To date, there have been no payments to or from the Airport's POB Plan.

The City deposited \$1,362,000 to its POB Plan to pay benefits and administrative costs for FY 2010. Actual payments from the City's POB Plan in FY 2010 totaled \$1,380,442. A balance of \$15,000 remained in the fund at June 30, 2010 and will be carried forward to pay the City's FY 2011 POB Plan expenditures, currently estimated at \$1,500,000. In July 2010, the City began making monthly transfers into the POB Plan to fund FY 2011 payments.

The Port deposited \$121,147 into its POB Plan to pay benefits and administrative costs for FY 2010. Actual payments from the Port's POB Plan in FY 2010 totaled \$166,630. A balance of \$1,000 remained in the fund at June 30, 2010 and will be carried forward to pay the Port's FY 2011 POB Plan expenditures, currently estimated at \$176,000. In July 2010, the Port transferred \$86,350 into the POB Plan to fund FY 2011 payments.

POB Plan activity is disclosed within this CAFR's Agency Fund disclosures and is also included in the City and Port's financial statements and CAFRs.

8. Leases

Operating Leases

The following is a schedule of future minimum rental payments required under an operating lease entered into by SDCERS that has an initial, non-cancelable lease term in excess of one year as of June 30, 2010:

Year Ending June 30 (in thousands)	
2011	\$931
2012	963
2013	997
2014	1,031
2015	1,069
2016-2019	3,535
Total	\$8,526

Rent expense related to operating leases was \$912,000 for the year ended June 30, 2010.

9. Legal Action

William J. McGuigan, et al. v. City of San Diego, San Diego Superior Court, case number GIC 849883.

In June 2005, William J. McGuigan, a retired City employee, filed a class action complaint claiming that the City failed to fund the retirement plan as required by the City Charter and San Diego Municipal Code. SDCERS was not a party to the action, but it was impacted by its settlement.

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In December 2006, the Court approved the settlement on the following terms: the City (1) will receive credit for having paid SDCERS \$100 million in June 2006; and (2) will pay SDCERS an additional \$73 million plus interest over 5 years, to be secured by property of comparable value. The settlement in the McGuigan case was appealed by the San Diego Police Officers' Association (POA). In September 2008, the Court of Appeal upheld the settlement approved by the trial court.

On June 30, 2010, the City transferred funds to SDCERS satisfying the full balance of the McGuigan settlement. SDCERS then reconveyed to the City deeds of trust for all property held by SDCERS to secure the amount owed.

San Diego City Employees' Retirement System v. City of San Diego and City Attorney Michael Aguirre, and related cross complaint, San Diego Superior Court, case number GIC 841845 and San Diego City Employees' Retirement System v. City of San Diego, San Diego Superior Court, case number GIC 851286.

In January 2005, SDCERS filed a complaint for declaratory relief asserting SDCERS' right to employ its own legal counsel, on which SDCERS prevailed by way of motion for summary judgment in March 2006. This matter was consolidated with multiple other lawsuits between the City, SDCERS and City employees' unions over the legality of certain pension benefits the City granted during the past decade. In 2007, the unions prevailed on all claims at the trial court level, and the City appealed. In December 2008, the Court of Appeal dismissed the City's appeal as premature and transferred the case back to the trial court for trial of SDCERS' compulsory cross-complaint against the City for recovery of past underfunding of SDCERS. In November 2009, the City's motion for summary judgment on SDCERS' cross-complaint was denied. On March 16, 2010, the Court granted the City's pre-trial motion for judgment on the pleadings as to one of SDCERS' three causes of action for past underfunding. Due to the nature of the Court's ruling, the Board elected not to amend the dismissed cause of action, and on April 23, 2010, dismissed its remaining causes of action. Final judgment was entered on November 22, 2010. The monies at issue in the portion of the litigation resolved by the Court's ruling on the City's motion for judgment on the pleadings continue to be recovered through the portion of the City's annual employer contribution attributable to the unfunded accrued liability.

City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, case number 37-2007-00077604-CU-MC-CTL.

In October 2007, the City filed a declaratory relief action against SDCERS for a judicial declaration that certain pension benefits were eliminated from SDCERS' retirement plan effective July 1, 2005. SDCERS contended that the benefits were not eliminated until February 16, 2007. SDCERS demurred to the complaint on the grounds that the City failed to name as defendants those individual employees whose retirement benefits would be affected by a determination of the effective date of the amendments to Municipal Code section 24.1201.1. SDCERS' demurrer was sustained in March 2008. The City filed an amended complaint naming a defendant class of employees. Notice of the litigation was sent to class members and defendant class counsel was assigned. All parties filed cross-motions for summary judgment, and on June 17, 2010, the Court ruled the effective date of the contested plan changes is July 1, 2005. On September 10 and 23, 2010, the defendant subclasses of affected employees filed notices of appeal from the judgment entered upon the Court's ruling.

City of San Diego v. San Diego City Employees' Retirement System, San Diego Superior Court, case number 37-2007-00081912-CU-WM-CTL.

In November 2007, the City filed a petition for a writ of mandate seeking an order vacating a decision by the Board to continue to amortize the portion of the unfunded accrued actuarial liability attributable to underpriced purchased service credits as part of the City's UAL. In November 2008, the Court granted the petition and directed that the Board's November 16, 2007 vote be set aside only to the extent it continued to authorize amortization of underfunding resulting from service credits purchased between August 15 and November 1, 2003, by employees who were still employed by the City as of November 20, 2007. SDCERS appealed the Court's decision. On June 7, 2010, the Court of Appeal upheld the trial court's ruling. SDCERS' Board decided

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not to appeal this ruling and the judgment is now final.

SDCERS is developing a correction process for the underpriced PSC contracts to resolve the actuarial impact of the PSC underfunding. The financial impact to the system cannot be determined until all contracts are corrected.

Erica Aaron, et al. v. Michael Aguirre, et al., U.S. District Court, Southern District of California, case number 06CV1451.

In July 2006, Erica Aaron filed a class action lawsuit on behalf of active and retired members of the POA naming SDCERS and others as defendants. The lawsuit was essentially identical in substance to another federal case, POA v. Aguirre, Case No. 05CV1581, which was dismissed in August 2007; the dismissal was upheld on appeal in June 2009. In September 2008, SDCERS prevailed on its motion for summary judgment, and plaintiffs appealed. On June 30, 2010, the Ninth Circuit Court of Appeals dismissed the appeal in its entirety as a result of plaintiffs' failure to file an opening brief, and the matter was thereby concluded.

San Diego Police Officers' Association v. Michael Aguirre, et al., San Diego Superior Court, case number 37-2007-00075432-CU-MC-CTL.

In September 2007, the POA filed a complaint for damages and declaratory and injunctive relief against the City Attorney, the City, SDCERS, various past and present members of the City Council, various former Board members, the former City Auditor, two former City Managers and a former Deputy City Manager. The allegations in this complaint mirrored those in POA v. Aguirre, Case No. 05CV1581, concerning alleged improprieties surrounding the passage and implementation of MP1 and MP2. On December 9, 2009, the POA dismissed all claims and causes of action against SDCERS, and the matter was thereby concluded.

Mark Annis, et al., v. City of San Diego, et al., San Diego Superior Court, case number 37-2008-00092949-CU-BC-CTL.

In October 2008, a class action was filed by Mark Annis on behalf of active and retired San Diego police officers. The lawsuit asserts causes of actions for violation of public policy, violation of the Meyer-Milias-Brown Act, breach of fiduciary duty, breach of trust, breach of contract and fraud and seeks an accounting, declaratory relief and a writ of mandate.

In September 2009, the Court executed an order dismissing the lawsuit in its entirety against SDCERS, finding that plaintiffs could not obtain meaningful relief from SDCERS. Plaintiffs subsequently filed a notice of appeal of the Court's decision. However, on March 19, 2010, the Court of Appeal dismissed the appeal for plaintiffs' failure to file an opening brief, and the matter was thereby concluded.

Erica Aaron, et al., v. City of San Diego, et al., San Diego Superior Court, case number 37-2008-00093078-CU-OE-CTL.

In October 2008, a class action was filed by Erica Aaron on behalf of active and retired San Diego police officers. The lawsuit asserts causes of action for violation of public policy, violation of the Meyer-Milias-Brown Act, breach of fiduciary duty, breach of trust and breach of contract and seeks an accounting, writ of mandate and declaratory relief.

In March 2009, the parties stipulated to a stay in the proceedings until the resolution of the related proceedings in state court in POA v. Aguirre, Case No. 37-2007-00075432_CU-MC-CTL. On March 8, 2010, counsel for plaintiffs moved to withdraw from the representation, and the Court granted the motion. On June 4, 2010, the Court determined that the named plaintiff, Erica Aaron, could not proceed in pro per on behalf of the other plaintiffs, and thus the class action claims in the complaint were stricken. The Court held a hearing on August 27, 2010 on an Order to Show Cause for Dismissal of Action due to Ms. Aaron's failure to prosecute the action. When Ms. Aaron failed to appear for that hearing, the Court dismissed the action. No appeal has been filed.

United States of America v. Ron Saathoff, et al., U.S. District Court, Southern District of California, case number 06CR0043-BEN.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2010

In January 2006, a federal grand jury filed indictments against former Board members, Ron Saathoff, Cathy Lexin, and Terri Webster, as well as SDCERS' former Retirement Administrator, Lawrence B. Grissom, and SDCERS' former General Counsel, Loraine Chapin. The indictment stated charges arising from alleged violations of Title 18, U.S.C. Section 371, conspiracy to commit wire and mail fraud; Title 18, U.S.C. Sections 1343 and 1346, mail fraud; and Title 18, U.S.C. Section 2, aiding and abetting. In October 2008, the U.S. Attorney's Office amended the indictment to include additional wire and mail fraud charges.

Pursuant to a resolution approved by the Board in March 2006, SDCERS entered into defense agreements with Mr. Grissom and Ms. Chapin. Each agreement is secured by collateral and requires repayment to SDCERS of all attorneys' fees in the event of any conviction or guilty plea arising from this action. In FY 2010, SDCERS paid \$99,403 in defense costs for Mr. Grissom and \$30,570 in defense costs for Ms. Chapin. The total defense costs paid through June 30, 2010 are \$906,124 for Mr. Grissom and \$608,562 for Ms. Chapin. On September 22, 2010, the U.S. Attorney's Office voluntarily dismissed the action against all defendants.

San Diego Municipal Employees' Association, et al. v. City of San Diego, et al., San Diego Superior Court case number 37-2008-00096145.

In June 2008, a complaint was filed against the City and SDCERS by Judith Italiano and the Municipal Employees' Association (MEA) stating claims against SDCERS for breach of fiduciary duty, infliction of emotional distress and restoration of her pension benefits and seeking damages for termination of the "Presidential Leave" program under which certain City employee union presidents and the unions, as employers of each such president, were allowed to contribute to SDCERS even though they were not City employees or a plan sponsor. The City and SDCERS terminated this program in conjunction with the Compliance Statement issued pursuant to SDCERS' Voluntary Correction Program to correct various plan defects.

All parties filed cross-motions for summary judgment, and on June 18, 2010, the Court denied plaintiffs' motion against SDCERS in its entirety, granted SDCERS' motion against plaintiff Judith Italiano as to her claims for a writ of mandate and declaratory relief compelling SDCERS to pay her pension, and denied SDCERS' motion as to her causes of action for breach of fiduciary duty, intentional infliction of emotional distress, and negligent infliction of emotional distress. Contingent upon Court approval of a good faith settlement motion, SDCERS has agreed to settle with plaintiffs for a net amount of \$448,224. On October 8, 2010, plaintiffs and SDCERS filed a settlement of the remaining causes of action for approval by the Court.

San Diego City Firefighters, Local 145 and Robert Blizzard v. San Diego City Employees' Retirement System and City of San Diego, San Diego Superior Court, case number 37-2008-000932170-CU-OE-CTL.

In October 2008, the San Diego City Firefighters, Local 145 and Robert Blizzard, a paramedic, filed a petition for writ of mandate as a representative action seeking to compel SDCERS to recalculate Mr. Blizzard's retirement benefits to include that portion of his salary paid at time and one-half and to calculate benefits for all similarly situated paramedics in the same manner. On October 27, 2009, the Court issued a minute order denying the petition. Judgment in favor of SDCERS was entered on May 12, 2010.

City of San Diego v. San Diego Police Officers Association, San Diego Superior Court, case number 37-2009-86499-CU-PT-CTL

In April 2009, the City filed a petition against the POA seeking a writ of mandate to the effect that DROP was a term and condition of employment subject to bargaining and not a vested pension benefit. DROP allows an eligible member to accrue retirement benefits in a special account for no more than five years while still employed with the plan sponsor with the requirement that the member exit DROP and terminate employment at the end of his or her DROP Participation Period. The City contends that DROP may be eliminated for existing employees. The City also contends that even if DROP is a pension benefit, it is not a vested benefit for City employees because the ordinance enacting DROP was not approved by a majority vote of the entire membership of SDCERS. POA answered the petition on June 1, 2009 and filed a cross-petition against the City requesting injunctive relief to prevent the City from eliminating or modifying the DROP benefit. The POA's cross-petition also requested a permanent injunction preventing the City from reducing the promised interest

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2010

rate for POA members' DROP accounts below the interest rate credited to active member accounts. In June 2009, the court denied the POA's petition and granted the City's petition. On October 9, 2009, the POA filed its notice of appeal. On October 1, 2010, the Board authorized its counsel to file an amicus brief in the action. If the POA prevails on its argument, SDCERS may be required to increase interest credited to DROP accounts and DROP annuities. SDCERS' amicus brief is due on December 26, 2010.

San Diego City Firefighters, Local 145 et al. v. San Diego City Employees' Retirement System and City of San Diego, San Diego Superior Court, case number 37-2009-00099066-CU-WW-CTL

In September 2009 a complaint was filed against the City and SDCERS by the San Diego City Firefighters, Local 145, Ronald Saathoff and nine individual plaintiffs known collectively as the Annual Leave Plaintiffs stating claims against SDCERS for breach of fiduciary duty and restoration of pension benefits and seeking damages for termination of the "Presidential Leave" program under which certain City employee union presidents and the unions, as employers of each such president, were allowed to contribute to SDCERS even though they were not City employees or a plan sponsor. The City and SDCERS terminated this program in compliance with the IRS's Compliance Statement issued pursuant to SDCERS' Voluntary Correction Program to correct various plan defects. The litigation also involves claims of the Annual Leave Plaintiffs regarding the IRS decision in the December 1997 Compliance Statement that SDCERS lacked the legal authority to allow firefighter members to use annual leave time with the City to "purchase" service credit in SDCERS, also known as the Cashless Leave Benefit. On March 12, 2010, the Court sustained SDCERS' demurrer to the first amended complaint without leave to amend, and final judgment was entered thereon. On May 12, 2010, plaintiffs filed a notice of appeal from that judgment. Appellant's opening brief is due on December 22, 2010.

Garry Collins, et al. v. City of San Diego and San Diego City Employees' Retirement System, San Diego Superior Court, case number 37-2009-00088422-CU-BC

In September 2009, the POA and Garry Collins, Harry Eastus and James Farrar served a complaint on SDCERS, stating claims for breach of fiduciary duty, specific performance of contract, infliction of emotional distress, restoration of pension benefits and seeking damages for termination of the "Presidential Leave" program. On December 17, 2009, SDCERS demurred to plaintiffs' complaint, in response to which plaintiffs dismissed their causes of action against SDCERS with prejudice.

City of San Diego vs. San Diego City Employees' Retirement System, San Diego Superior Court, case number 37 2009 00099066 CU WW CTL

On May 3, 2010, the City filed a complaint against SDCERS seeking the Court to order SDCERS to charge City employees half of investment losses. SDCERS asked the Court to dismiss the lawsuit at the pleading stage. Without ruling on the merits, on September 24, 2010 the Court declined to dismiss the lawsuit on the grounds that it would be premature to do so without a more fully developed record. SDCERS believes that the lawsuit is without merit and will vigorously defend against the claims. If the lawsuit were successful, it would not change the City's Plan assets or liabilities. Rather, the City seeks to increase the amount City employees must contribute, and decrease the amount the City must contribute. A hearing on the merits of this matter is presently scheduled for February 10, 2011.

10. Subsequent Events

Purchased Service Contracts

As addressed in *Note 9. Legal Action*, *City of San Diego v. San Diego City Employees' Retirement System*, on June 7, 2010 the Court of Appeals upheld a trial court's ruling which deemed a number of underpriced purchased service contracts (PSC) issued by SDCERS, following an August 2003 Board decision, to be not legally authorized. SDCERS' Board decided not to appeal this ruling and the judgment is now final.

San Diego City Employees' Retirement System

Notes to the Financial Statements (continued)

June 30, 2010

SDCERS is developing a correction process for the underpriced PSC contracts to resolve the actuarial impact of the PSC underfunding. Correction options for members who entered into a PSC during the affected time period were presented to the Board and approved at their October 1, 2010 meeting. Also at this meeting, the Board authorized staff to submit this correction process to the Internal Revenue Service under the Voluntary Correction Program (VCP) for review and approval by the IRS to ensure that SDCERS maintains the tax-qualified status of the Plan. The VCP filings were made with the IRS on December 3, 2010.

Staff is now presenting an overview of the correction process and the number of contracts, employees, and amounts involved to each of the three Plan Sponsors. Approximately 2,300 current and retired members of the City, Port and Airport have contracts that were underpriced. Preliminary calculations indicate the additional amount payable to SDCERS by affected members due to the underpricing is approximately \$100 million. However, members can also correct the underpricing by cancelling and receiving a refund of their original contract or by reducing the years of purchased service credit to what was effectively paid. The Plan Sponsors will be requested to decide if any of the affected PSCs should be exempted from correction, prior to SDCERS contacting the affected member with the correction options.

The financial impact to the System cannot be determined until the Plan Sponsors have rendered their decision on any contracts for which they voluntarily agree to assume the associated PSC underfunding cost, and for those contracts to be corrected by the member, until the member decision has been made and the associated contracts are corrected. This process is estimated to take several months to complete.

Plan Sponsor Contributions

On July 1, 2010, SDCERS received a total of \$240.9 million in FY 2011 Plan Sponsor contributions: \$225.1 million from the City, \$11.5 million from the Unified Port District and \$4.3 million from the Airport. The City paid \$4.0 million less than its 2011 Annual Required Contribution (ARC) of \$229.1 million pending an anticipated adjustment to the ARC payment stemming from new calculations relating to the cost of purchased service credits. However, the ARC was not recalculated and the City paid the remaining \$4.0 million on November 11, 2010. Interest on the \$4.0 million balance totaling \$0.1 million was accrued from July 1, 2010 through the payment date of November 11, 2010. The interest payment has not yet been received from the City.

The plan sponsors historically have paid their contributions at the beginning of the fiscal year in order to fully invest contributions for the entire fiscal year and to take advantage of an actuarial discount in the calculation of the annual required contribution.

San Diego City Employees' Retirement System
Required Supplementary Information
Schedules of Funding Progress (Dollars in Thousands)

City of San Diego

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/09	\$4,175,229	\$6,281,636	66.5%	\$2,106,407	\$536,591	392.6%
6/30/08 ¹	4,660,346	5,963,549	78.1	1,303,203	535,774	243.2
6/30/07 ³	4,413,411	5,597,653	78.8	1,184,242	512,440	231.1
6/30/06 ²	3,981,932	4,982,699	79.9	1,000,768	534,103	187.4
6/30/05	2,983,080	4,377,093	68.2	1,394,013	557,631	250.0
6/30/04 ¹	2,628,680	3,997,328	65.8	1,368,648	540,181	253.4

San Diego Unified Port District

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/09	\$223,879	\$288,698	77.5%	\$64,819	\$40,370	160.6%
6/30/08 ¹	245,580	267,036	92.0	21,456	38,635	55.5
6/30/07 ³	230,585	246,538	93.5	15,953	37,160	42.9
6/30/06 ²	203,286	220,637	92.1	17,351	33,927	51.1
6/30/05	163,691	198,072	82.6	34,381	35,077	98.0
6/30/04	141,375	175,366	80.6	33,991	34,916	97.4

San Diego County Regional Airport Authority

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAL	Member Payroll	UAL Ratio to Member Payroll
6/30/09	\$58,981	\$67,871	86.9%	\$8,890	\$24,693	36.0%
6/30/08 ¹	58,096	56,808	102.3	(1,288)	23,488	-5.5
6/30/07 ³	50,812	46,637	109.0	(4,176)	21,957	-19.0
6/30/06 ²	41,222	36,905	111.7	(4,317)	19,116	-22.6
6/30/05	28,551	32,603	87.6	4,051	17,609	23.0
6/30/04	16,225	23,579	68.8	7,354	15,606	47.1

¹Reflects revised actuarial assumptions

²Reflects revised actuarial methodologies

³Reflects revised actuarial methodologies, including the return to the most widely-accepted actuarial funding method, Entry Age Normal (EAN). (See Actuarial Section for more details).

A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of a retirement plan. The most recent actuarial valuation for the City, the Port and the Airport was performed as of June 30, 2009.

**San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress
For the Years Ended June 30**

1. Key Actuarial Assumptions

In the June 30, 2009 valuation, the normal cost and actuarial accrued liability are determined using the Entry Age Normal (EAN) actuarial funding method.

The June 30, 2008 and June 30, 2009 actuarial valuations were based on revised actuarial assumptions approved by the Board in September 2008.

- Retirement rates by age were replaced by retirement rates by years of service and were increased;
- Termination rates by age and service were increased;
- Disability rates by age were decreased;
- Active and retiree mortality rates were updated to new tables;
- The wage inflation assumption was lowered from 4.25% to 4.0%; and
- The rate of investment return assumption was lowered from 8.0% to 7.75%.

The assumed annual pension cost-of-living adjustment is generally 2% per annum, compounded.

The member statistical data on which the annual actuarial valuations were based was furnished by SDCERS and is combined by Cheiron with pertinent data on financial operations. Membership data was reviewed for reasonableness, but was not audited by the actuary.

Actuarial Valuations are available on-line at sdcers.org.

For further information regarding the actuarial valuations and assumptions, see *Note 6. Funded Status and Actuarial Methods and Assumptions*, and the Actuarial Section.

2. Actuarial Terms Defined

Valuation Assets: The value of cash, investments, and other property belonging to a pension plan are used by the actuary for the purpose of an Actuarial Valuation. Beginning with the June 30, 2007 Valuation, the Actuarial Value of Assets is equal to 100% of the prior year's expected actuarial value of assets (assuming 7.75% earnings for the year) plus 25% of the difference between the current actual market value of assets and the expected actuarial value of assets.

Actuarial Accrued Liabilities (AAL): The difference between the actuarial present value of plan benefits and the actuarial value of future normal costs.

Annual Required Contribution (ARC): The employer required contribution amount for GASB 25 disclosure purposes.

Funded Ratio: This ratio provides a measure of the plan's overall health. The ratio is calculated by dividing the Actuarial Value of Assets by the Actuarial Accrued Liabilities (AAL). Over time, the ratio is expected to increase toward 100% in the absence of benefit improvements or modification of actuarial assumptions.

San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Funding Progress (continued)
For the Years Ended June 30

Unfunded Actuarial Liability (UAL): The difference between Actuarial Accrued Liabilities and Actuarial Value of Assets. Also called Unfunded Actuarial Accrued Liability (UAAL).

Member Payroll: Each plan sponsor's estimated total annual compensation for all active members (covered payroll) of a retirement system, as reported in the actuarial valuation.

UAL Ratio to Member Payroll: This ratio is calculated by dividing the UAL by the Member Payroll. The ratio is a relative index of condition where inflation is present in both items. Over time, the ratio is expected to decrease toward 0% in the absence of benefit improvements or changes in actuarial assumptions.

For further information regarding actuarial assumptions and policies, see the Actuarial and Statistical Sections.

3. Commentary

City of San Diego

As of June 30, 2009, the City had a funded status of 66.5%, using the EAN funding method.

The schedule for the City presented above reports the last six years of historical funding progress information.

As of the June 30, 2009 actuarial valuation, the City's UAL was \$2.1 billion, using the EAN funding method. A 20-year closed amortization period is being used to pay down the then-existing June 30, 2007 UAL commencing on July 1, 2008 for Fiscal Year 2009. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2009, are each amortized over a closed 15-year period.

San Diego Unified Port District

As of June 30, 2009, the Port had a funded status of 77.5%, using the EAN funding method.

The schedule for the Port presented above reports the last six years of historical funding progress information.

As of the June 30, 2009 actuarial valuation, the Port had a UAL of \$64.8 million using the EAN funding method. The Port's then-existing June 30, 2007 UAL is being amortized over a closed 14-year period, with 12 years remaining at June 30, 2009. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2009, are each amortized over a closed 15-year period.

San Diego County Regional Airport Authority

As of June 30, 2009, the Airport had a funded status of 86.9%, using the EAN funding method.

The schedule for the Airport presented above reports the last six years of historical funding progress information.

As of the June 30, 2009 actuarial valuation, the Airport had a UAL of \$8.9 million using the EAN funding method. The Airport's then-existing June 30, 2007 UAL is being amortized over a closed 14-year period, with 12 years remaining at June 30, 2009. The amortization of subsequent fiscal yearly experience gains and losses, including those for FY 2009, are each amortized over a closed 15-year period.

**San Diego City Employees' Retirement System
Required Supplementary Information
Schedules of Plan Sponsor Contributions**

City of San Diego
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2005 - 2010)
(Dollars in Thousands)

SDCERS' actuary calculates annual employer contribution rates using the entry age normal actuarial funding methodology. The City's Contributions Made to SDCERS have differed from the Annual Required Contributions (ARC) recommended by SDCERS' actuary. This was approved by SDCERS' Board in accordance with their authority under the Charter of the City of San Diego, Article IX, Section 143, Contributions.

	2010	2009	2008	2007	2006	2005
Annual Required Contributions (ARC)	\$154,200 ¹	\$161,700 ¹	\$137,700 ¹	\$162,000 ¹	\$170,071 ²	\$181,284 ²
Contributions Made to SDCERS	192,533 ⁴	162,475	165,581 ⁸	169,126 ⁷	271,349 ⁶	122,089 ^{3,5}
Difference - Over/ (Under) Contributed	38,333	775	27,881	7,126	101,278	(59,195)
Percentage of ARC Contributed	124.0%	100.5%	120.2%	104.4%	159.6%	67.4%

¹ Annual Required contributions (ARC) figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

² The City's ARC for 2005 and 2006 has been recalculated by the City's actuary in accordance with GASB 25, Par. 36, including adjustment for Corbett.

³ Adjusted contributions per City, including adjustment to reduce "contributions made" for healthcare benefit expenses paid.

⁴ Contributions for 2010 were made at a full actuarially-determined rate using the Entry Age Normal method. In addition, the City made contributions above this amount associated with final settlement of the McGuigan case. See *Note 9. Legal Action*.

⁵ Contributions for 2005 were a fixed amount in accordance with the Gleason Settlement. The City's contribution funding method for 2005 was not one of the six actuarial cost methods approved by GASB Statement 25. As a result, a Net Pension Obligation (NPO) is included in the City of San Diego's Comprehensive Annual Financial Report.

⁶ Contributions for 2006 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its Retirement UAL SDCERS Reserve Fund year-end balance.

⁷ Contributions for 2007 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City made contributions above this amount by transferring its Retirement UAL SDCERS Reserve Fund year-end balance.

⁸ Contributions for 2008 were made at a full actuarially-determined rate using the Projected Unit Credit method. In addition, the City contributed an additional \$20 million to ensure no negative amortization of the UAL, and \$7.3 million to reimburse SDCERS for assets spent on prior year's retiree health expenses.

San Diego City Employees' Retirement System
Required Supplementary Information
Schedules of Plan Sponsor Contributions (continued)

San Diego Unified Port District
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2005 - 2010)
(Dollars in Thousands)

	2010	2009	2008	2007	2006	2005
Annual Required Contributions (ARC)	\$7,200 ¹	\$7,300 ¹	\$6,900 ¹	\$8,300 ¹	\$8,121 ²	\$7,613 ¹
Contributions Made to SDCERS	7,201	7,340 ³	6,900	9,300	8,121	7,613
Difference - Over/ (Under) Contributed	1	40	-	1,000	-	-
Percentage of ARC Contributed	100.0%	100.5%	100.0%	112.1%	100.0%	100.0%

¹ Annual Required Contributions (ARC) figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

² ARC figures provided by plan sponsor; ARC calculated using annual covered payroll.

³ The Port prepaid their FY2010 ARC of \$7.2 million which is shown as a liability at June 30, 2009 on the SDCERS Statement of Plan Net Assets.

San Diego County Regional Airport Authority
Schedule of Plan Sponsor Contributions
For the Six Years Ended June 30 (2005 - 2010)
(Dollars in Thousands)

	2010	2009	2008	2007	2006	2005
Annual Required Contributions (ARC)	\$3,000 ¹	\$3,000 ¹	\$2,200 ¹	\$2,600 ¹	\$2,879 ²	\$2,312 ¹
Contributions Made to SDCERS	7,600 ³	3,035	2,520	2,962	3,300	7,625
Difference - Over/ (Under) Contributed	4,600	35	320	362	421	5,313
Percentage of ARC Contributed	253.3%	101.2%	114.5%	113.9%	114.6%	329.8%

¹ Annual Required Contributions (ARC) figures provided by SDCERS' actuary; ARC calculated using annual covered payroll.

² ARC figures provided by plan sponsor, ARC calculated using annual covered payroll.

³ In 2010, in addition to the full ARC payment, the Airport voluntarily contributed an additional \$4.6 million to achieve certain funding level thresholds.

**San Diego City Employees' Retirement System
Required Supplementary Information
Notes to the Schedules of Plan Sponsor Contributions
For the Years Ended June 30**

Trend Information

Three sources of revenues fund a retirement system: plan sponsor contributions, member contributions and investment earnings on these contributions. Each year, SDCERS' actuary determines the amount of plan sponsor contributions (expressed as a contribution rate) required to fund benefits (current and future liabilities). Benefit schedules are calculated for each actuarial valuation from the benefit structure of the City, Port, and Airport, statistical data about SDCERS members, and current and predicted future retirees and beneficiaries. The actuary must make assumptions to estimate how many SDCERS members will terminate employment; leave on a disability retirement or service retirement; and, the average ages of members at retirement and at mortality. Finally, this data is combined with an actuarially assumed investment rate of return and assumed salary increases of the City's, Port's and Airport's employees. This information is presented in actuarial valuation reports in which the actuary recommends employer contribution rates (stated as a percentage of valuation payroll) to each of the plan sponsors. The actuarially determined contribution rate percentages are applied to the annual payroll for each of the participating plan sponsors' employees. The resulting dollar amounts, as depicted in the above schedules of plan sponsor contributions, are the Annual Required Contributions (ARC) necessary to fund the promised benefits to SDCERS' members.

City of San Diego

The Schedule of Plan Sponsors' Contributions for the City contains six years of historical information with respect to the ARC compared to the actual contributions made by the City.

Contributions for FY 2005 were a fixed amount in accordance with the Gleason settlement. This contribution method was not one of the six actuarial cost methods approved by GASB Statement 25. As a result, a Net Pension Obligation is included in these years in the City of San Diego's Comprehensive Annual Financial Report.

Contributions for FY 2006, FY 2007, and FY 2008 were made at a full actuarially-determined rate using the Projected Unit Credit method. In 2006 the City made contributions above this amount from the City tobacco revenue bond proceeds plus the transfer of its dedicated UAL Reserve Fund year-end balance for both FY 2006 and FY 2007. The City made additional contributions in FY 2008 to ensure no negative amortization of the UAL and to reimburse SDCERS for assets spent on prior year's retiree health expenses. Effective in FY 2006 through FY 2008, the City made full actuarial contributions based upon the terms of the Gleason settlement.

Contributions for FY 2009 and FY 2010 were made at a full actuarially-determined rate using the EAN method. In addition, in FY 2010 the City made contributions above this amount associated with final settlement of the McGuigan case. See *Note 9. Legal Action*.

San Diego Unified Port District

The Schedule contains six years of historical information comparing the Port's ARC to its contributions. Over the past six years, the Port has contributed 100% or more of the amount recommended by SDCERS' actuary. The Port's current funded status is 77.5%.

San Diego County Regional Airport Authority

The Schedule contains six years of historical information comparing the Airport's ARC to its contributions. Since its inception, the Airport has contributed 100% or more of the amount recommended by SDCERS' actuary and has a current funded status of 86.9%.

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules

Schedule of Administrative Expenses
For the Year Ended June 30, 2010
(Dollars in Thousands)

Salaries and Personnel	\$6,328
Data Processing	
Data Processing and Computer Services	1,668
Contracted Services	660
Total Data Processing	2,328
Outside Legal Counsel	2,942
Disability	
Medical Consulting and Disability Review	79
General Operations	
Rent	912
Office Operations Expenses	909
Actuary Services	565
Fiduciary Insurance	382
Depreciation Expense	231
Audit Services	127
Travel & Training	84
Professional Services	81
Total General Operations	3,291
GRAND TOTAL	\$14,968

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules (continued)

Schedule of Fees Paid to Investment Professionals
For the Year Ended June 30, 2010
(Dollars in Thousands)

	Market Value of Assets Under Management ¹	Total Fees Paid
Investment Manager Fees		
Domestic Equity Managers	\$1,538,866	\$6,985
International Equity Managers	668,716	3,925
Domestic Fixed Income Managers	1,385,996	3,975
International Fixed Income Managers	162,838	404
Real Estate Managers	365,170	4,710
Private Equity Managers	37,963	1,552
Cash & Cash Overlay	80,015	185
Total Investment Manager Fees	\$4,239,564	\$21,736
Other Investment Service Fees		
Custodian Services		281
Investment Consultants		650
Investment Accounting Applications		38
Total Other Investment Service Fees		\$969
Total Fees Paid to Investment Professionals		\$22,705

¹ Market Values of Assets Under Management for SDCERS' investment managers include total investments at fair value (based on trade date), by investment strategy, as detailed in the actual asset allocation as depicted in the Investment Section of this CAFR. The audited financial statements classify SDCERS' aggregate portfolio by security type, cash, stocks, bonds and real estate, and nets the receivable and payable of cash for pending transactions (settlement date based) in each strategy.

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules (continued)

Schedule of Payments to Consultants
For the Year Ended June 30, 2010
(Dollars in Thousands)

<u>Individual or Firm</u>		<u>Nature of Service</u>
Legal Firms & Professional Legal Services (see next page for full listing)	\$2,942	Legal, Arbitration, Mediation, Court Reporting
San Diego Data Processing Corporation	1,668	Computer/Applications Support
Cheiron, Inc.	565	Actuary
L.R. Wechsler, LTD	267	Pension Payroll RFP Requirements Documentation
Levi, Ray & Shoup	251	Member Benefit Systems Development
Macias Gini & O'Connell LLP	126	Audit
Linea Solutions	107	Computer System Support
Doctors & Disability Services (see next page for full listing)	79	Medical Consulting
Various Providers	117	Various Contractual Services
Total Payments to Consultants and Professional Service Providers	\$6,122	

Financial Section

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules (continued)

Schedule of Payments to Consultants (continued)
For the Year Ended June 30, 2010

SDCERS used the following Doctors' services:

California Orthopaedic Institute Medical Associates, Inc.

William S. Adsit, M.D.

Drew Peterson, M.D.

Michael Quinn, D.P.M.

Steven Tradonsky, M.D.

So. California Cardiology Medical Group

Steven Gross, M.D.

Southwest & Associates

Michael Kimball, M.D.

Robert Warren, M.D.

Other Doctors

Dominick Addario, M.D.

Zaven Bilezikjian, M.D.

Daniel J. Bressler, M.D.

William P. Curran, Jr., M.D.

William Hughson, M.D.

L. Mercer McKinley, M.D.

Mark Mikulics, M.D.

Robert E. Neveln, M.D.

David Reiss, M.D.

James Scalone, D.O.

Gregory Schwab, M.D.

SDCERS paid the following Legal & Professional Legal Services Firms:

ADR (Alternate Dispute Resolutions) Services, Inc

Brown Law Group, ALC

Byrne & Nixon, LLP

Cooley Godward Kronish, LLP

Geary D. Cortes

Cox, Castle & Nicholson, LLP

Gibbs & Fuerst

Ice Miller Legal and Business Advisors

Irell & Manella, LLP

JAMS (Judicial Arbitration Services)

Judicate West

Thomas Lambert, CPA, APC

Manatt, Phelps & Phillips, LLP

Maxie Rheinheimer Stephens & Vrevich, LLP

Olson, Hagel & Fishburn, LLP

Michael Pancer

Paul Hastings, Janofsky & Walker, LLP

Peterson & Associates

Pillsbury Winthrop Shaw Pittman, LLP

Seltzer Caplan McMahon Vitek, APC

Veritext San Diego Reporting Co.

Howard B. Wiener

San Diego City Employees' Retirement System
Other Supplementary Information
Supporting Schedules (continued)

Statement of Changes in Assets and Liabilities - Agency Funds
For the Year Ended June 30, 2010
(Dollars in Thousands)

	City of San Diego Preservation of Benefits Fund			
	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
ASSETS				
Cash or Equity in Pooled Cash and Investments with the City of San Diego	\$1	\$-	\$1	\$-
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	26	1,362	1,373	15
TOTAL ASSETS	\$27	\$1,362	\$1,374	\$15
LIABILITIES				
Sundry Trust Liability	27	1,362	1,374	15
TOTAL LIABILITIES	\$27	\$1,362	\$1,374	\$15
	San Diego Unified Port District Preservation of Benefits Fund			
	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
ASSETS				
Cash and Cash Equivalents on Deposit with Custodial Bank and Fiscal Agents	\$42	\$121	\$162	\$1
TOTAL ASSETS	\$42	\$121	\$162	\$1
LIABILITIES				
Sundry Trust Liability	42	121	162	1
TOTAL LIABILITIES	\$42	\$121	\$162	\$1

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Investment Consultant's Statement



November 18, 2010

Mr. Mark Hovey
Chief Executive Officer
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear Mr. Hovey:

This letter provides a brief overview of the performance of the investments of the San Diego City Employees' Retirement System (SDCERS) during the Fiscal Year ending June 30, 2010 (FY 2010).

Major capital markets worldwide posted gains during FY 2010, partially offsetting the losses experienced during the prior fiscal year. FY 2010 started off on a positive note as markets continued to rally from their lows in early March 2009. Government stimulus programs, higher than expected corporate earnings, improved investor optimism, and a renewed appetite for risk-taking contributed to a broad economic rebound and supported market gains. The fiscal year, however, ended on a less optimistic note as the looming debt crisis in Europe, continued high unemployment rate, the possibility of a double-dip recession, and uncertainty relating to the final provisions of the Wall Street reform bill (that passed subsequent to the end of the fiscal year) weighed on investor sentiment.

The Federal Open Markets Committee dropped the Federal Funds Target Range to an all time low of 0.00% - 0.25% in December 2008, with a goal of stimulating a rebound in economic growth. The Federal Funds Rate remained at that level at the end of the fiscal year. In light of the Federal Reserve's policy stance, the markets' expectations for interest rate hikes and an increase in inflation remained low over the foreseeable future.

The decline across the real estate market abated toward the end of the fiscal year. While transaction activity remained below normal levels, the pace of real estate transactions ticked up marginally toward the end of the fiscal year, resulting in improved valuations across the more conservative segments of real estate.

The broad U.S. equity markets gained 16.1% during the fiscal year, outpacing developed non-U.S. equity markets, which posted a 5.9% gain. The dollar rallied significantly against the Euro with the onset of the European debt crisis, which impacted returns of developed non-U.S. equity markets. Emerging markets,

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Page 2
November 18, 2010

however, continued to post healthy gains as most developing economies emerged rather unscathed by the crisis that impacted the developed world. Emerging markets gained 23.2% during the fiscal year. The steady decline in interest rates positively impacted the broad U.S. bond markets, which gained 9.5% over the fiscal year. Riskier segments of the fixed income markets performed even better as spreads declined materially. U.S. high yield bonds gained 26.8% during the fiscal year.

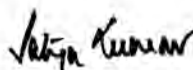
The SDCERS' Trust Fund ended the fiscal year with \$4.2 billion in assets, gaining 13.4% over the previous fiscal year on a gross-of-fee basis, outpacing the 12.7% return of its benchmark by 0.7 percentage points. Strong relative performance of the fixed income portfolio, which earned a return of 18.3% (as compared to the benchmark's gain of 9.5%) contributed materially to the Fund's relative performance. All asset classes within the Fund performed in line with expectations.

During the fiscal year, a comprehensive review of SDCERS' asset allocation was initiated. This commenced with a detailed asset/liability study aimed at identifying an appropriate risk posture and portfolio allocation given SDCERS' financial and actuarial circumstances. This work concluded with a detailed asset/liability study and recommendations, which was approved by the Board of Trustees subsequent to the end of the fiscal year.

Sincerely,



Steve Voss
Principal



Satya Kumar, CFA
Principal

San Diego City Employees' Retirement System Asset Class Investment Returns^{1, 2}

Performance Comparisons For the Periods Ended June 30, 2010

	Annualized Performance			
	1-YEAR	3-YEAR	5-YEAR	10-YEAR
SDCERS' Domestic Equity Performance	18.0%	-8.9%	0.1%	2.0%
Domestic Equity Benchmark, comprised of:	18.3%	-8.2%	0.4%	0.9%
Standard & Poor's 500 (55.6% weight)	14.4%	-9.8%	-0.8%	-1.6%
Standard & Poor's MidCap 400 (18.5% weight)	24.9%	-5.9%	2.2%	5.3%
Russell 2000 (18.5% weight)	21.5%	-8.6%	0.4%	3.0%
Merrill Lynch All Convertibles All Quality Index (7.4% weight)	22.6%	-2.3%	3.3%	1.9%
SDCERS' International Equity Performance	8.7%	-14.2%	1.6%	2.5%
International Equity Benchmark, comprised of:	11.4%	-10.7%	3.7%	3.2%
MSCI AC World Free Ex-US Index (80.0% weight)	10.4%	-10.7%	3.4%	1.9%
S&P Developed Ex-US Small Cap Index (20.0% weight)	14.5%	-12.4%	3.1%	5.2%
SDCERS' Domestic Fixed Income Performance	18.3%	8.5%	7.1%	7.0%
Domestic Fixed Income Benchmark, comprised of:	9.5%	5.8%	5.0%	5.7%
Barclays Capital Aggregate Index (100% weight)	9.5%	7.6%	5.5%	6.5%
SDCERS' International Fixed Income Performance	5.8%	7.3%	4.9%	6.8%
International Fixed Income Benchmark, comprised of:	1.5%	7.7%	5.0%	6.4%
Citigroup World Govt Bond Index Non-U.S. (100% weight)	1.5%	7.7%	5.0%	6.4%
SDCERS' Market Neutral Performance	-2.7%	0.1%	2.9%	3.3%
Market Neutral Benchmark, comprised of:	3.1%	4.4%	5.7%	5.6%
Citigroup 90 day T-Bill + 3.0% (100% weight)	3.1%	4.4%	5.7%	5.6%
SDCERS' Real Estate Performance	-1.1%	-12.4%	-0.3%	8.2%
Real Estate Benchmark, comprised of:	10.2%	-2.8%	5.0%	8.7%
NCREIF Property Index (75.0% weight)	-1.5%	-4.7%	3.8%	7.2%
FTSE EPRA/NAREIT Developed REIT Index (25.0% weight)	25.0%	-13.6%	0.4%	8.6%
SDCERS' Private Equity Performance³	0.0%	0.0%	0.0%	0.0%
Private Equity Benchmark, comprised of:	17.8%	-7.1%	2.2%	1.4%
S&P 500 + 3.0% (100% Weight)	17.8%	-7.1%	2.2%	1.4%
SDCERS' Total Fund Performance	13.4%	-4.4%	2.8%	4.5%
Total Fund Performance Benchmark, comprised of:	12.7%	-3.0%	3.4%	4.3%
S&P 500 (22.8%); BC Agg (18.0%); MSCI AC World ex-US Free (13.6%); Citigroup 90 day T-Bill +3% (9.0%); Russell 2000 (7.6%); S&P MidCap 400 (7.6%); NCREIF (8.3%); Citigroup WGBI Non-U.S. (4.0%); S&P Developed ex-US Small Cap (3.4%); FTSE EPRA/NAREIT Developed REIT (2.7%); and ML All Convertible (3.0%).				

¹ Basis of calculation is time-weighted rates of return.

² Long-Term Performance: 3-year, 5-year and 10-year performance benchmarks may have been comprised of different indices and percentage weights due to changes in SDCERS' asset allocation strategy over time.

³ SDCERS' Private Equity program was initiated in the first quarter of FY 2010. An annualized rate of return is not available for the full fiscal year.

San Diego City Employees' Retirement System
Investment Managers
 As of June 30, 2010

Domestic Equity Investment Managers

Allianz Global Investors Capital

San Diego, CA

Fisher Investments

Woodside, CA

State Street Global Advisors

San Francisco, CA

Delta Asset Management

Los Angeles, CA

Globeflex Capital, L.P.

San Diego, CA

Trust Company of the West (TCW)

Los Angeles, CA
 New York, NY

Dimensional Fund Advisors

Santa Monica, CA

**INTECH Enhanced Investment
 Technologies (Janus)**

Palm Beach Gardens, FL

Wall Street Associates

La Jolla, CA

Dodge & Cox

San Francisco, CA

Perimeter Capital Management

Atlanta, GA

**Domestic Fixed Income
 Investment Managers**

Metropolitan West Asset Management

Los Angeles, CA

**Market Neutral
 Investment Managers**

Invesco Institutional, Inc.

New York, NY

Pacific Investment Management Company (PIMCO)

Newport Beach, CA

Pyramis Global Advisors (Fidelity)

Smithfield, RI

International Equity Investment Managers

Aberdeen Asset Management

Philadelphia, PA

Grantham, Mayo, Van Otterloo & Co. LLC

Boston, MA

Globeflex Capital, L.P.

San Diego, CA

Brandes Investment Partners

San Diego, CA

McKinley Capital Management Inc.

Anchorage, AK

International Fixed Income Investment Managers

Rogge Global Partners

London, England

Real Estate Investment Managers

Colony Capital, LLC

Los Angeles, CA

Invesco Real Estate

Dallas, TX

RREEF Funds

San Francisco, CA

Cornerstone Real Estate Advisers

Glastonbury, CT

Pacific Coast Capital Partners

El Segundo, CA

RREEF Funds (REITs)

Chicago, IL

Europa Capital

London, England

Pyramis (Fidelity) Real Estate

Boston, MA

URDANG Capital Management (Capmark)

Plymouth Meeting, PA

Private Equity Discretionary Consultants

Credit Suisse Private Equity, Inc.

New York, NY

StepStone Group, LLC

San Diego, CA

**San Diego City Employees' Retirement System
Summary of Investment Goals and Philosophy
As of June 30, 2010**

Consistent with SDCERS' Mission Statement, the goal of SDCERS' investment program is to generate adequate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay the present and future obligations of SDCERS. The following objectives are intended to assist in achieving this goal:

- SDCERS should earn, on a long-term average basis, a total rate of return in excess of SDCERS' actuarial investment return assumption of 7.75%.
- SDCERS should seek to earn a return in excess of its policy benchmark over the long term.
- SDCERS' assets will be managed on a total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

To achieve these objectives, SDCERS allocates its investment assets with a strategic, long-term perspective of the capital markets.

It is the purpose of SDCERS' investment program to ensure that sufficient financial assets are available to provide SDCERS' participants and their beneficiaries with all benefits due as specified in SDCERS' plan documents. Therefore, the participants' and beneficiaries' financial interests shall take precedence over all other financial interests. In addition, SDCERS manages its investment program based on principles outlined under the Prudent Expert standard. SDCERS also diversifies the investments so as to maximize the probability of achieving the actuarial rate of return while minimizing risk.

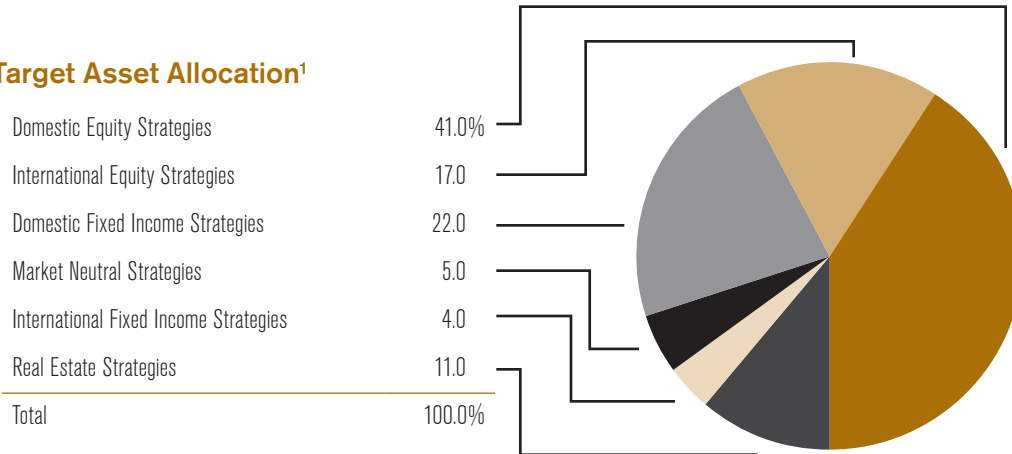
* * *

These goals and objectives are found in SDCERS' Investment Policy Statement (IPS). The IPS encompasses the investment goals, objectives and policies of the SDCERS Trust Fund. The purpose of the IPS is to assist the Board, the Investment Committee and Staff to effectively supervise and monitor SDCERS' investment program.

A copy of the IPS is available upon request or on SDCERS' website – www.sdcers.org.

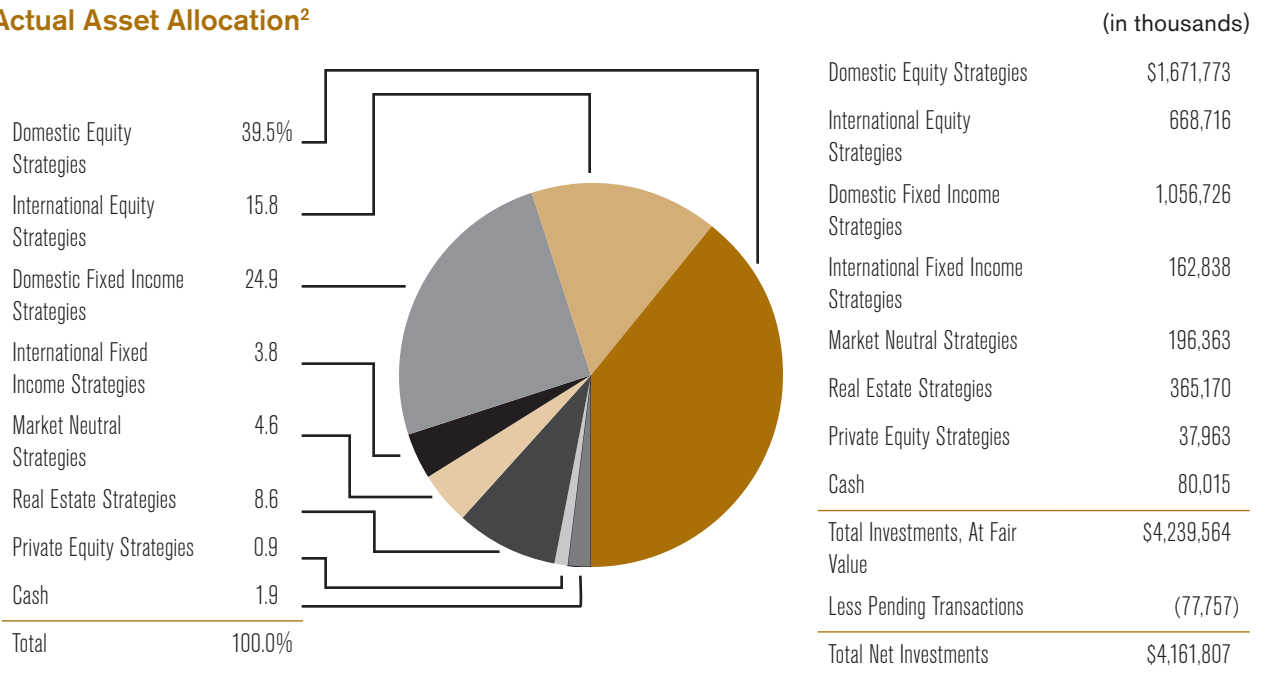
**San Diego City Employees' Retirement System
As of June 30, 2010**

Target Asset Allocation¹



¹ In September 2007, private equity was added as a new asset class at a target allocation of 5%, which is expected to be funded over several years. In the first quarter of FY 2010, SDCERS hired two discretionary private equity consultants to build the private equity program. Domestic equity allocations will be proportionally reduced from 41% to 36% in one percent increments as private equity capital is invested and the allocation increases from zero to five percent of total assets.

Actual Asset Allocation²



² Actual asset allocation values illustrated above are based upon SDCERS' investment managers' specific strategies. Each portfolio, including all securities and cash held by an investment manager, is categorized based upon the strategy that SDCERS hired that manager to execute. SDCERS does not have a target allocation to cash. Investment strategy totals by asset class here will differ from those that appear in the audited financial statements. For GASB reporting purposes, investments in the audited financial statements are stated from a total fund perspective and are then classified by security type: i.e., cash, stocks, bonds, real estate and private equity.

Investment Section

San Diego City Employees' Retirement System

At June 30, 2010 (in Thousands)

Schedule of Largest Equity Holdings

Rank	Shares	Equity Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	86	Apple, Inc.	037833100	\$21,556	0.5%
2	210	Occidental Petroleum Corp.	674599105	16,178	0.4
3	36	Google, Inc.	38259P508	15,927	0.4
4	269	Schlumberger Ltd.	806857108	14,911	0.4
5	337	Hewlett Packard Co.	428236103	14,569	0.3
6	229	Procter and Gamble Co.	742718109	13,723	0.3
7	357	Merck and Co., Inc.	58933Y105	12,478	0.3
8	360	Qualcomm, Inc.	747525103	11,825	0.3
9	222	Teva Pharmaceutical Industries Ltd.	881624209	11,564	0.3
10	541	Cisco Systems, Inc.	17275R102	11,537	0.3
Total				\$144,268	3.5%

Schedule of Largest Fixed Income Holdings

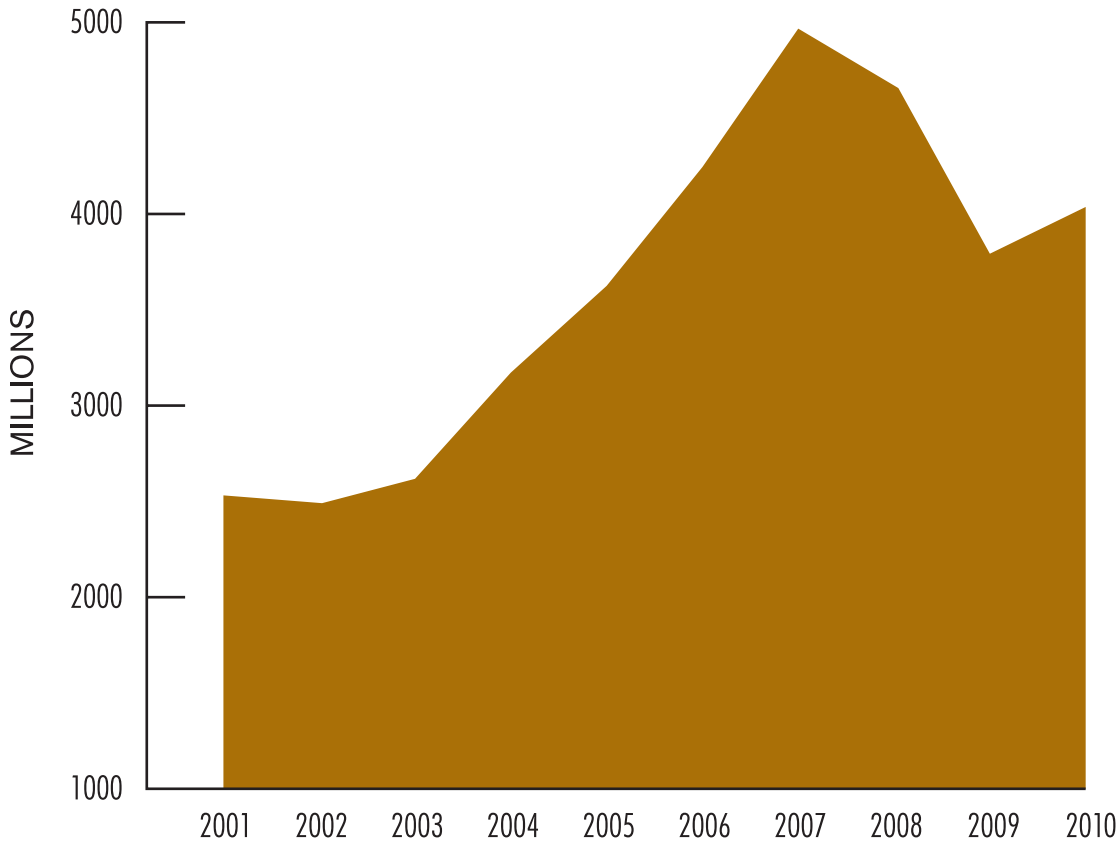
Rank	Par	Fixed Income Securities	CUSIP	Fair Value	Percentage of Total Net Investments
1	34,300	Interest Rate Swap- Rec USD Fixed 3% 15 Dec 15	99S07J285	\$35,365	0.8%
2	33,525	US Treasury 1.875% 30 Jun 15	912828NLO	33,656	0.8
3	27,500	Interest Rate Swap- Rec USD Fixed 2% 15 Dec 12	99S07HZNO	27,899	0.7
4	22,865	GNMA I TBA July 30 Single Family 4.5% 01 Dec 99	01N042674	23,815	0.6
5	20,030	US Treasury 2.375% 28 Feb 15	912828MR8	20,644	0.5
6	17,400	US Treasury 3.5% 15 May 20	912828ND8	18,210	0.4
7	10,057	Kingdom Of Netherlands 5% 15 Jul 12	730959I16	13,368	0.3
8	11,700	US Treasury 0.625% 30 Jun 12	912828NS5	11,701	0.3
9	11,100	Macquarie Bank LTD 3.3% 17 Jul 14	55607EAL4	11,636	0.3
10	11,000	FNMA TBA July 30 Single Family 4.5% 01 Dec 99	01F042673	11,401	0.3
Total				\$207,695	5.0%

A complete list of portfolio holdings is available upon request.

San Diego City Employees' Retirement System
Schedule of Commissions
Top 25 Brokerage Firms Used
For the Year Ended June 30, 2010 (in thousands)

Rank	Broker Name	Shares	Base Commission	Commission Per Share
1	Goldman Sachs & Co.	17,682	\$552	\$0.031
2	Merrill Lynch & Co., Inc.	22,624	314	0.014
3	Barclays Capital Inc.	8,629	312	0.036
4	UBS AG	23,312	311	0.013
5	Credit Suisse Securities	21,197	305	0.014
6	Instinet Inc	16,025	298	0.019
7	State Street Global Markets, LLC	23,976	283	0.012
8	Societe Generale	5,242	256	0.049
9	JPMorgan Chase & Co.	25,850	255	0.010
10	Morgan Stanley & Co., Inc.	121,816	250	0.002
11	Jefferies & Company, Inc.	11,766	230	0.020
12	Deutsche Bank Securities, Inc.	6,069	219	0.036
13	Cantor Fitzgerald & Co.	4,293	144	0.034
14	Citigroup Global Markets, Inc.	8,325	127	0.015
15	Investment Technology Group, Inc.	8,641	110	0.013
16	Liquidnet Holdings, Inc.	2,902	105	0.036
17	Nomura Securities International, Inc.	26,105	94	0.004
18	JonesTrading Institutional Services LLC	1,907	73	0.038
19	Macquarie Group Limited	17,417	72	0.004
20	Knight Capital Group Inc	6,878	61	0.009
21	BNY ConverGEX Group	2,456	58	0.024
22	Credit Agricole CIB	3,591	56	0.015
23	Pershing LLC	1,505	48	0.032
24	Craig-Hallum Capital Group LLC	1,206	44	0.036
25	ROTH Capital Partners, LLC	2,135	38	0.018
	All Other Brokers	84,043	968	0.012
	Total	475,592	\$5,583	\$0.012

**San Diego City Employees' Retirement System
Growth of Investments, At Fair Value
For Ten Years Ended June 30, 2010**



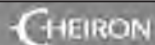
Fiscal Year	Fair Value¹ (in thousands)
2001	\$2,582,010
2002	2,507,015
2003	2,656,058
2004	3,240,853
2005	3,636,722
2006	4,202,303
2007	4,922,362
2008	4,663,861
2009	3,697,249
2010	4,161,807

¹ Fair value includes investments, cash and cash equivalents on deposit, net of pending transactions (receivable for securities sold and liability for securities purchased).



4. ACTUARIAL

Actuary's Certification Letter



Classic Values, Innovative Advice

November 17, 2010

Members of the Retirement Board
San Diego City Employees' Retirement Systems
401 West A Street, Suite 400
San Diego, California 92101

Dear Members of the Board:

Actuarial valuations for the San Diego City Employees' Retirement System (SDCERS) are performed annually. The results of the June 30, 2009 actuarial valuation of SDCERS are summarized in this letter.

Funding Objective

The funding objective of SDCERS is to fully fund the plan's liabilities with contributions which, over time, will remain level as a percent of payroll. Under this approach the contribution rate is based on the normal cost rate and an amortization of any UAL.

Funding Method

The actuarial funding method for the actuarial valuation is the **Entry Age Normal** actuarial funding method. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the EAN actuarial liability and the actuarial value of assets is the Unfunded Actuarial Liability (UAL). The UAL is amortized over the periods described below for each plan sponsor.

Amortization of Unfunded Actuarial Liability

In May 2007, the SDCERS Board adopted the following closed amortization periods which have been used to calculate the portion of the June 30, 2009 contribution rate that is attributable to the UAL for all three plan sponsors. The amortization period for the then-existing June 30, 2007 UAL for each plan sponsor was set at 20 years for the City, 14 years for the UPD, and 14 years for the Airport Authority. For all three plan sponsors, the amortization of future experience gains and losses was set at 15 years, and the amortization of changes in actuarial methods or assumptions was set at 30 years. The Board also adopted an additional UAL cost component to ensure that there is no negative amortization of the UAL in any year.

Assumptions

The June 30, 2009 valuation results are based on the same actuarial assumptions and methods used in the June 30, 2008 valuation, except the assumption used to calculate the value of the Deferred Retirement Option Plan (DROP) account balances. The assumptions as a whole represent our best estimate for the future experience of SDCERS. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of SDCERS could vary from our results.

The assumptions and methods used in performing this valuation meet the parameters set by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contributions Plans*.



Plan Provisions

The Board adopted new employee contribution rates for the June 30, 2009 valuation based on its interpretation of the requirement in the San Diego City Charter for “substantially equal” employer and employee contributions. This change applied only to the City.

City General and Police Members hired on or after July 25, 2009, and UPD General and Executive Members hired on or after January 1, 2009, will participate in new plans with lower benefits and costs. The contributions for FY 2011 reflect the anticipated cost reduction on the projected FY 2011 payroll for new hires. As experience under these new plans emerges, further study will be required and the actual cost implications may vary.

Reliance on Others

In preparing our report, we relied without audit, on information (some oral and some written) supplied by SDCERS’ staff. This information includes, but is not limited to, plan provisions, member data, and financial information. The census data provided was reviewed for reasonableness and for consistency with prior year’s data.

Supporting Schedules

Using historical information (pre-2005 results provided by the prior actuary) along with results developed by Cheiron, we prepared all supporting schedules to be found in the Actuarial Section and most in the Statistical Section. We have also reviewed for accuracy the trend data prepared by SDCERS’ staff in the Required Supplementary Information of the Financial Section.

Compliance with Code of San Diego §24.0100-0200 and Charter section 149

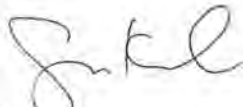
We have complied with the Code of San Diego §24.0100-0200 in valuing the benefits provided to future and current retirees of SDCERS – City Employees. In addition to §24.0100-0200, we have complied with Charter section 149 in valuing the benefits provided to future and current retirees of the San Diego Unified Port District and the San Diego Airport Authority.

Certification

I, Gene Kalwarski, am a consulting actuary for Cheiron. I am also a member of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein.

I certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable actuarial standards set out by the Actuarial Standards Board, including Actuarial Standards of Practice (ASOPs) Nos. 4, 27, 35 and 44.

Sincerely,
Cheiron



Gene Kalwarski, FSA
Consulting Actuary

San Diego City Employees' Retirement System Summary of June 30, 2009 Valuation Results

Overview

The primary purpose of the actuarial valuation and this report is to measure, describe and identify as of the valuation date:

- The financial condition of the System,
- Historical trends in the financial condition of the System,
- The SDCERS contribution rates, and
- Information required by the Governmental Accounting Standards Board (GASB).

On the pages that follow, we present:

1. The actuary's general comments on the valuation,
2. Historical trends showing the System's funding progress and contributions,
3. Detailed information on employer and employee contribution rates,
4. Summary of actuarial assumptions and methods,
5. Schedule of membership data,
6. Schedule of retirees and beneficiaries,
7. Solvency test,
8. Analysis of financial experience, and
9. Summary of SDCERS benefit provisions and Deferred Retirement Option Plan (DROP) program.

San Diego City Employees' Retirement System Summary of June 30, 2009 Valuation Results (continued)

1. General Comments

The Board adopted new employee contribution rates for the June 30, 2009 valuation based on its interpretation of the requirement in the San Diego City Charter for "substantially equal" employer and employee contributions. This change applied only to the City.

City General and Police Members hired on or after July 25, 2009 will participate in new plans with lower benefits and costs. While there are no members covered by the new benefit formulas in this valuation, the City's contribution for FY 2011 reflects the anticipated cost reduction on the projected FY 2011 payroll for new hires. As experience under the new plans emerges, further study will be required and the actual cost implications may vary.

UPD General and Executive Members hired on or after January 1, 2009 participate in a new plan with lower benefits and costs. In particular, new members do not begin to accrue service and are not eligible for any benefits until they have completed at least five years of UPD employment. The UPD's contribution for FY 2011 reflects the anticipated cost reduction on the projected FY 2011 payroll for new hires. As experience under the new plan emerges, further study will be required and the actual cost implications may vary.

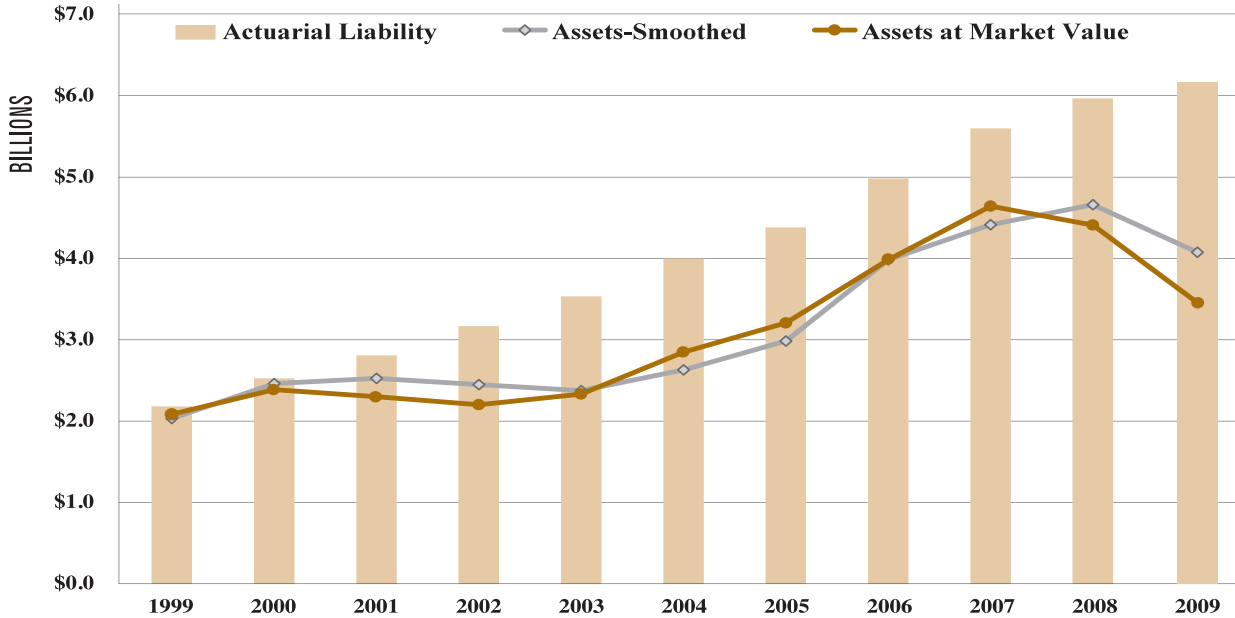
The UAL for each plan sponsor is split into several tiers, each using a different amortization period. The outstanding balance at June 30, 2009 of the June 30, 2007 UAL was amortized over 18 years for the City, and over 12 years for the UPD and the Airport Authority. For all three plan sponsors, the outstanding balance at June 30, 2009 of the June 30, 2008 UAL due to assumption changes was amortized over 29 years, and the outstanding balance of the June 30, 2008 UAL due to actuarial experience was amortized over 14 years. The June 30, 2009 UAL due to actuarial experience was amortized over 15 years. Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

The valuation reports for each of the employers in SDCERS show the itemized effects of these changes on the Unfunded Actuarial Liability and the Gain/Loss of the UAL as well.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

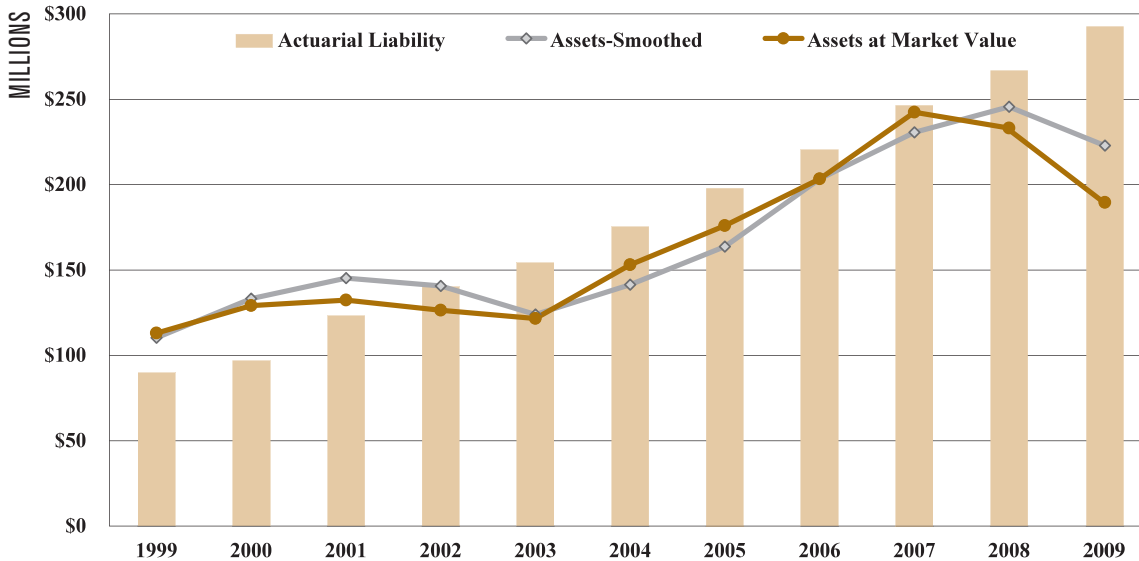
2. Historical Trends
Assets and Liabilities

SDCERS - City of San Diego Assets and Liabilities 1999 - 2009



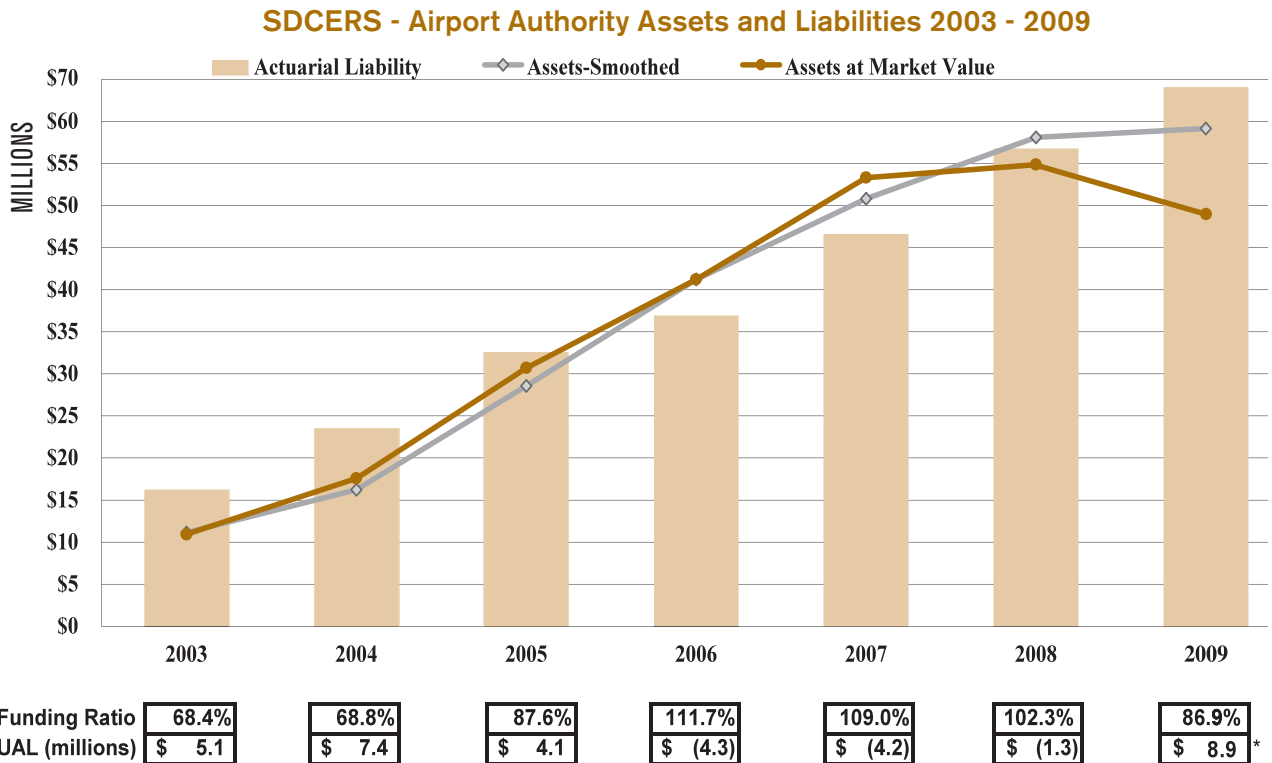
Funding Ratio	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%	79.9%	78.8%	78.1%	66.5%
UAL (billions)	\$ 0.15	\$ 0.07	\$ 0.28	\$ 0.72	\$ 1.16	\$ 1.37	\$ 1.39	\$ 1.00	\$ 1.18	\$ 1.30	\$ 2.11

SDCERS - Unified Port District Assets and Liabilities 1999 - 2009



Funding Ratio	122.8%	137.1%	118.0%	100.3%	80.3%	80.6%	82.6%	92.1%	93.5%	92.0%	77.5%
UAL (millions)	\$ (20.5)	\$ (36.0)	\$ (22.2)	\$ (0.4)	\$ 30.4	\$ 34.0	\$ 34.4	\$ 17.	\$ 16.0	\$ 21.5	\$ 64.8

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)



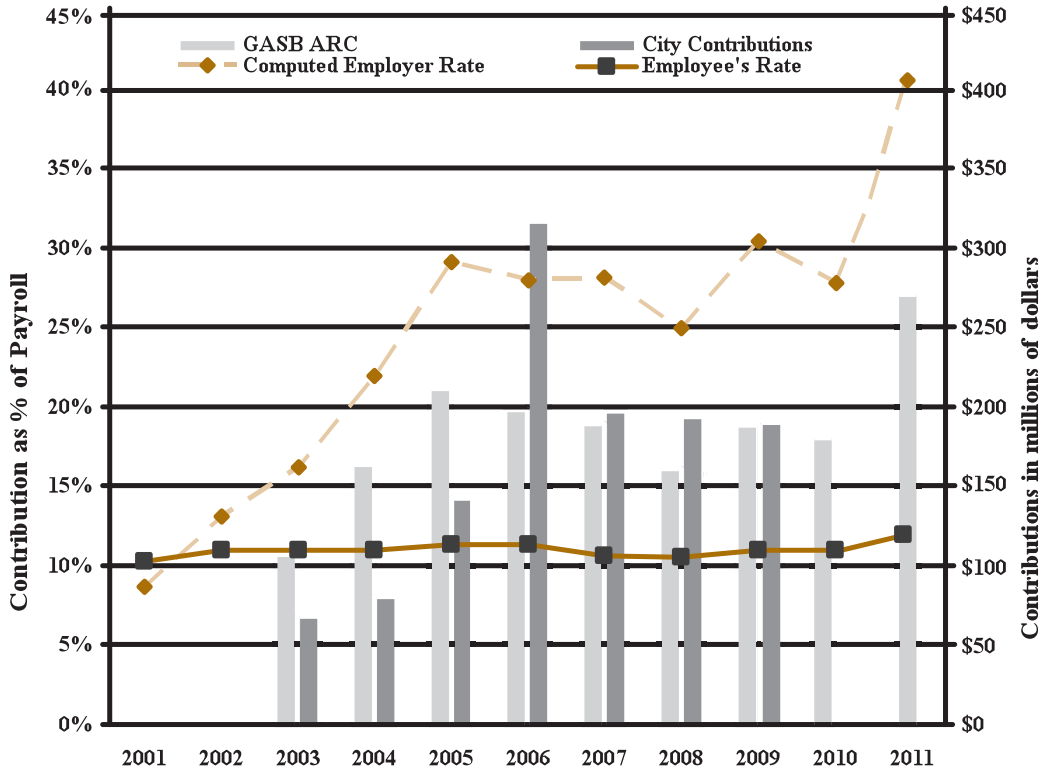
* The UAL for 2007 and after is calculated using the Entry Age Normal method, 2006 and prior years are calculated using the Projected Unit Credit method.

For funding purposes, the target amount is represented by the top of the bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph chart.

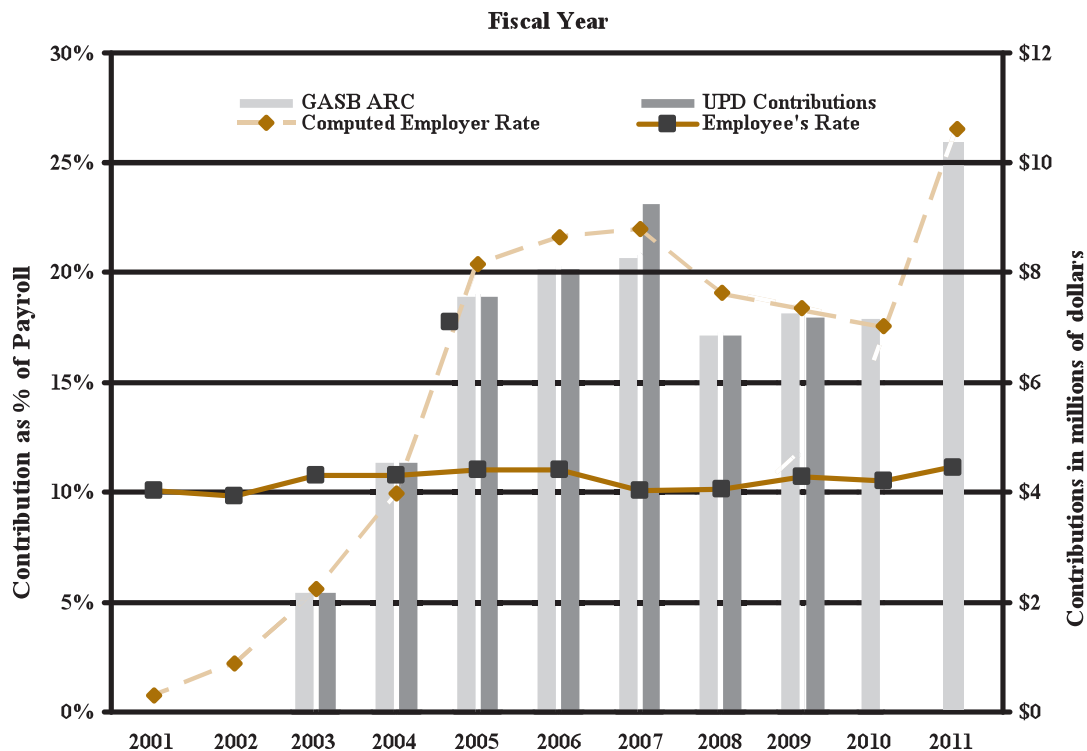
As demonstrated above, the System had its highest funded percentage at June 30, 2000, before a combination of benefit improvements and the three-year market slide at the start of the decade. From 2003 to 2007, the funded percentage improved due to the increase in investment returns among other factors. In 2008, negative investment returns and a change in actuarial assumptions caused the funded percentage to decrease, and in 2009 the funded percentage decreased significantly due to investment losses.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)
Contribution Rates

SDCERS - City of San Diego and Member Contribution Rates 1999 - 2009

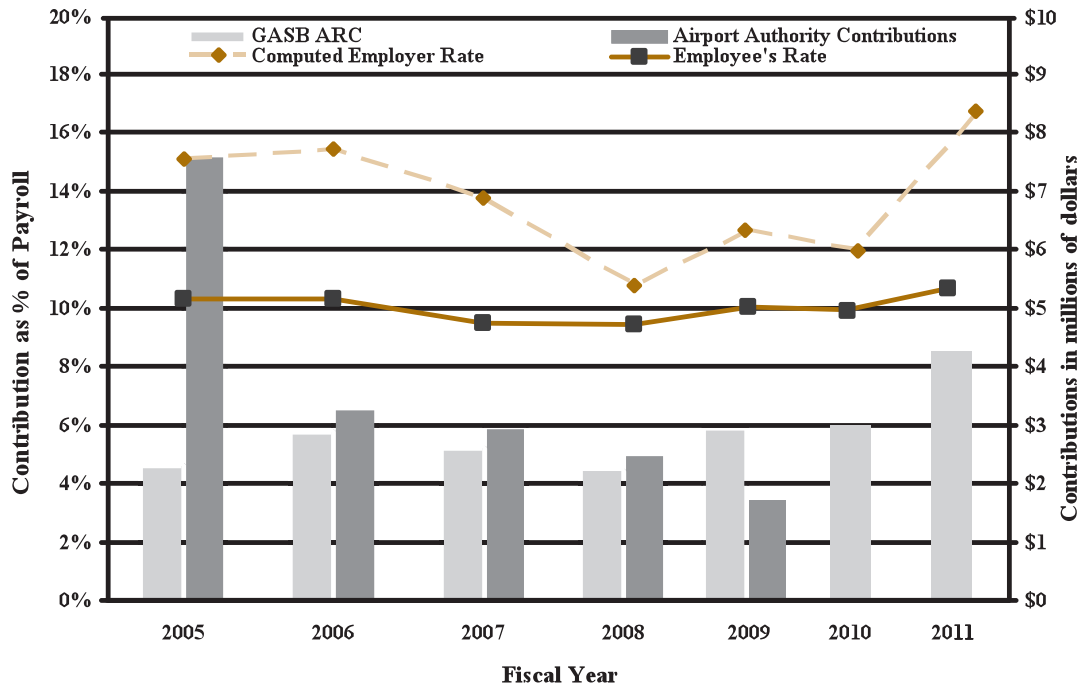


SDCERS - Unified Port District and Member Contribution Rates 1999 - 2009



San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)
Contribution Rates

SDCERS - Airport Authority and Member Contribution Rates 2003-2009



The light bars show the actuarially computed GASB ARC in dollars, while the dark bars show the actual contribution paid by the plan sponsor (right hand scale). The dotted line shows the employer contribution each year as a percent of payroll (left hand scale). The solid line shows employees' contributions as a percent of payroll (left hand scale).

Actuarial Section

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

3. Contribution Rates

SDCERS - City of San Diego
(all dollar amounts in millions)

	Valuation Date	June 30, 2009	June 30, 2008
Unfunded Actuarial Liability (UAL)		\$2,106.4	\$1,303.2
Funding Ratio		66.5%	78.1%
City Contribution Rate		41.75%	27.73%

	Fiscal Year	2011	2010	2009
Annual Required Contribution (GASB ARC):				
• if paid at the beginning of the year		\$229.1 million	\$154.2 million	\$161.7 million
• if paid throughout the year		\$237.8 million	\$160.1 million	\$168.1 million

SDCERS - City of San Diego - Membership Total

Item	June 30, 2009	June 30, 2008	% Change
Active Counts	8,273	8,487	-2.5%
Terminated Vested	2,827	2,743	3.1%
Disabled	1,257	1,244	1.0%
Retirees	4,975	4,597	8.2%
Beneficiaries	1,137	1,099	3.5%
Total City Members	18,469	18,170	1.6%
Active Member Payroll	\$536,591,287	\$535,774,438	0.2%
Average Pay per Active Member	64,861	63,129	2.7%

SDCERS - City of San Diego - Assets & Liabilities

	June 30, 2009	June 30, 2008	% Change
Actives	\$2,353,326,545	\$2,426,739,455	-3.0%
Terminated Vested	255,124,776	250,141,836	2.0%
Disabled	408,598,894	392,785,020	4.0%
Retirees	3,118,227,002	2,763,266,125	12.8%
Beneficiaries	146,358,891	130,617,109	12.1%
Total Actuarial Liability	\$6,281,636,108	\$5,963,549,545	5.3%
Market Value Assets	\$3,479,357,154	\$4,408,719,440	-21.1%
Actuarial Value Assets	4,175,228,585	4,660,346,403	-10.4%
Unfunded Actuarial Liability	\$2,106,407,523	\$1,303,203,142	61.6%
Funding Ratio-Actuarial Value	66.5%	78.1%	-11.6%

SDCERS - City of San Diego - Contributions

	June 30, 2009	June 30, 2008	% Change
Current Plan Gross Normal Cost %	23.60%	21.81%	1.8%
Current Plan Member Cost %	12.22%	10.93%	1.3%
Current Plan Employer Normal Cost %	11.38%	10.88%	0.5%
New Plan Employer Normal Cost %	8.55%	N/A	N/A
Total Employer Normal Cost %	11.14%	10.88%	0.3%
Employer Unfunded Liability Cost %	30.61%	16.39%	14.2%
Negative Amortization Adjustment Cost %	0.00%	0.46%	-0.5%
Total Employer Cost %	41.75%	27.73%	14.0%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	\$ 229.1 million	\$ 154.2 million	49.0%
• if paid throughout the year	\$ 237.8 million	\$ 160.1 million	49.0%

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

SDCERS - Unified Port District

Valuation Date	June 30, 2009	June 30, 2008
Entry Age Normal UAL (millions)	\$64.8	\$21.5
Entry Age Normal Funding Ratio	77.5%	92.0%
UPD Contribution Rate	27.61%	17.57%

Fiscal Year	2011	2010	2009
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	\$11.5 million	\$7.2 million	\$7.3 million
• if paid throughout the year	\$12.0 million	\$7.5 million	\$7.6 million

SDCERS - Unified Port District - Membership Total

Item	June 30, 2009	June 30, 2008	% Change
Active Counts	564	565	-0.2%
Terminated Vested	281	276	1.8%
Disabled	63	60	5.0%
Retirees	268	246	8.9%
Beneficiaries	60	55	9.1%
Total UPD Members	1,236	1,202	2.8%
Active Member Payroll	\$40,370,258	\$38,634,835	4.5%
Average Pay per Active Member	71,578	68,380	4.7%

SDCERS - Unified Port District - Assets & Liabilities

	June 30, 2009	June 30, 2008	% Change
Actives	\$137,987,124	\$130,541,076	5.7%
Terminated Vested	12,908,003	13,467,043	-4.2%
Disabled	14,884,521	13,776,914	8.0%
Retirees	115,138,009	102,962,596	11.8%
Beneficiaries	7,780,488	6,289,100	23.7%
Total Actuarial Liability	\$288,698,145	\$267,036,729	8.1%
Market Value Assets	\$186,565,603	\$233,027,785	-19.9%
Actuarial Value Assets	223,878,723	245,580,297	-8.8%
Unfunded Actuarial Liability	\$64,819,422	\$21,456,432	202.1%
Funding Ratio-Actuarial Value	77.5%	92.0%	-14.5%

SDCERS - Unified Port District - Contributions

	June 30, 2009	June 30, 2008	% Change
Current Plan Gross Normal Cost %	25.57%	23.58%	2.0%
Current Plan Member Cost %	11.15%	10.53%	0.6%
Current Plan Employer Normal Cost %	14.42%	13.05%	1.4%
New Plan Employer Normal Cost %	4.39 %	N/A	N/A
Total Employer Normal Cost %	13.57%	13.05%	0.5%
Employer Unfunded Liability Cost %	14.04%	4.52%	9.5%
Negative Amortization Adjustment Cost %	0.00%	0.00%	0.0%
Total Employer Cost %	27.61%	17.57%	10.0%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	\$11.5 million	\$7.2 million	60.9%
• if paid throughout the year	\$12.0 million	\$7.5 million	60.9%

Actuarial Section

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

SDCERS - Airport Authority

Valuation Date	June 30, 2009	June 30, 2008
Entry Age Normal UAL (millions)	\$8.9	\$(1.3)
Entry Age Normal Funding Ratio	86.9%	102.3%
Airport Contribution Rate	16.6%	11.96%

Fiscal Year	2011	2010	2009
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	\$4.3 million	\$3.0 million	\$3.0 million
• if paid throughout the year	\$4.5 million	\$3.1 million	\$3.1 million

SDCERS - Airport Authority - Membership Total

Item	June 30, 2009	June 30, 2008	% Change
Active Counts	338	341	-0.9%
Terminated Vested	68	62	9.7%
Disabled	1	-	0.0%
Retirees	20	16	25.0%
Beneficiaries	1	1	0.0%
Total Airport Members	428	420	1.9%
Active Member Payroll	\$24,693,427	\$23,488,283	5.1%
Average Pay per Active Member	73,057	68,881	6.1%

SDCERS - Airport Authority - Assets & Liabilities

	June 30, 2009	June 30, 2008	% Change
Actives	\$55,169,739	\$47,157,366	17.0%
Terminated Vested	2,777,562	3,309,120	-16.1%
Disabled	213,239	-	0.0%
Retirees	9,405,538	6,037,405	55.8%
Beneficiaries	304,867	303,772	0.4%
Total Actuarial Liability	\$67,870,945	\$56,807,663	19.5%
Market Value Assets	\$49,150,920	\$54,856,234	-10.4%
Actuarial Value Assets	58,981,105	58,095,599	1.5%
Unfunded Actuarial Liability	\$(8,889,841)	\$(1,287,936)	-790.2%
Funding Ratio-Actuarial Value	86.9%	102.3%	-15.4%

SDCERS - Airport Authority - Contributions

	June 30, 2009	June 30, 2008	% Change
Gross Normal Cost %	24.42%	22.67%	1.8%
Member Cost %	10.53%	9.91%	0.6%
Employer Normal Cost %	13.89%	12.76%	1.1%
Employer Unfunded Liability Cost %	2.64%	-0.80%	3.4%
Negative Amortization Adjustment Cost %	0.07%	0.00%	0.1%
Total Employer Cost %	16.60%	11.96%	4.6%
Annual Required Contribution (GASB ARC):			
• if paid at the beginning of the year	\$4.3 million	\$3.0 million	34.8%
• if paid throughout the year	\$4.5 million	\$3.1 million	34.8%

San Diego City Employees' Retirement System Summary of June 30, 2009 Valuation Results (continued)

4. Summary of Assumptions and Methods

A. Funding Method

The Entry Age Normal actuarial funding method was used to determine the actuarial liability. The normal cost (associated with active employees only) is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability for active employees is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial liability is amortized by annual payments. The payments are determined as a level percentage of pay, assuming payroll increases 4.00% per year. The UAL for FY 2010 is to be amortized over several different periods, and is as follows:

City of San Diego

The June 30, 2009 experience loss is amortized over 15 years, the outstanding balance of the June 30, 2008 UAL due to assumption changes is amortized over 29 years, the outstanding balance of the June 30, 2008 experience loss is amortized over 14 years, and the outstanding balance of the June 30, 2007 UAL is amortized over 18 years. Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

San Diego Unified Port District and San Diego County Regional Airport Authority

The June 30, 2009 experience loss is amortized over 15 years, the outstanding balance of the June 30, 2008 UAL due to assumption changes is amortized over 29 years, the outstanding balance of the June 30, 2008 experience loss is amortized over 14 years, and the outstanding balance of the June 30, 2007 UAL is amortized over 12 years. Finally, if necessary, there is an additional UAL cost component to ensure that there is no negative amortization in any year.

The System's contributions are calculated using the same basic actuarial method (EAN).

B. Actuarial Value of Assets

For the purposes of determining the City of San Diego's contribution to SDCERS, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value of assets each year is equal to 100% of the *expected actuarial value of assets*¹ plus 25% of the difference between the current market value of assets and the expected actuarial value of assets. In no event will the actuarial value of assets ever be less than 80% of the market value of assets, nor ever greater than 120% of the market value of assets.

C. Method Changes since Last Valuation

There were no method changes for the June 30, 2009 valuation.

¹ The expected actuarial value of assets is equal to the prior year's actuarial value of assets increased with actual contributions made, decreased with actual disbursements made, all items (prior assets, contributions and disbursements) further adjusted with expected investment returns for the year.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

Long Term Assumptions Used to Determine System Costs and Liabilities

D. Demographic Assumptions

Mortality

General members follow the RP2000 Combined Healthy table (male and female) projected to 2008. Safety members follow the Male RP2000 projected to 2008, set forward two years. Set forward two years means that when a member is currently age 50 the actuary uses the age 52 mortality rate. SDCERS uses setbacks and set forwards to compensate for mortality experience in its work force.

Rates of Mortality for Active Lives at Selected Ages

Age	General		Safety
	Male	Female	
20	0.03%	0.02%	0.03%
25	0.03	0.02	0.04
30	0.04	0.02	0.05
35	0.07	0.04	0.09
40	0.10	0.06	0.11
45	0.14	0.10	0.15
50	0.18	0.15	0.23
55	0.31	0.25	0.41
60	0.59	0.49	0.78
65	1.14	0.93	1.45
70	1.97	1.61	2.42

All active member deaths are assumed to be duty-related for Safety members and not duty-related for other members.

All retired healthy members use the RP2000 Combined Healthy table (male and female). Safety members use the RP2000 Combined Healthy table set forward two years (male and female).

Rates of Mortality for Retired Healthy Lives at Selected Ages

Age	General		Safety	
	Male	Female	Male	Female
40	0.11%	0.07%	0.12%	0.09%
45	0.15	0.11	0.17	0.13
50	0.21	0.17	0.27	0.20
55	0.36	0.27	0.47	0.35
60	0.67	0.51	0.88	0.67
65	1.27	0.97	1.61	1.22
70	2.22	1.67	2.73	2.07
75	3.78	2.81	4.69	3.41
80	6.44	4.59	8.05	5.63
85	11.08	7.74	13.60	9.63
90	18.34	13.17	21.66	15.76

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

Disabled General members use Uninsured Pensioner 1994 (UP 1994) male only table set forward five years.
 Disabled Safety members use Uninsured Pensioner 1994 (UP 1994) male only table set forward two years.

Rates of Mortality for Disabled Lives at Selected Ages

Age	General	Safety
20	0.07%	0.06%
25	0.09	0.08
30	0.09	0.09
35	0.12	0.10
40	0.17	0.13
45	0.28	0.20
50	0.48	0.35
55	0.86	0.60
60	1.56	1.09
65	2.55	1.94
70	4.00	3.06

Termination of Employment (Prior to Normal Retirement Eligibility)

Rates of Termination at Selected Ages and Service 5+ years*

Age	General	Safety
20	12.78%	5.00%
25	8.33	4.07
30	5.83	3.57
35	4.60	3.07
40	3.36	2.67
45	2.78	2.33
50	2.78	2.33
55	2.78	2.33
60	2.78	2.33

*Add 1% to every age for each year of service under 5 years.

20% of terminating employees, with 10+ years of service at termination (5+ years of service at termination for UPD and Airport employees), are assumed to subsequently work for a reciprocal employer and receive 4.50% pay increases per year.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

Disability

Rates of Disability at Selected Ages

Age	General	Safety
20	0.04%	0.40%
25	0.06	0.40
30	0.07	0.40
35	0.11	0.50
40	0.15	0.63
45	0.23	0.82
50	0.35	0.95
55	0.53	1.80
60	0.68	-

60% of the General disabilities and 80% of the Safety disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a service requirement.

Family Composition

80% of men and 50% of women were assumed married at retirement. Female spouse is assumed to be 4 years younger than the male spouse.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

Retirement

Rates of Retirement by Service Years

<i>Service</i>	<i>General</i>	<i>Safety</i>
5-9*	9%	9%
10-19	33	32
20	41	32
21	33	14
22	35	18
23	37	23
24	39	27
25	41	32
26	42	36
27	44	41
28	46	45
29	48	50
30	50	100
31	51	100
32	53	100
33	55	100
34	57	100
35+	100	100

*Service years 5-9 apply only to UPD and Airport Authority beginning at age 62; City employees become retirement eligible after 10 years of service beginning at age 62. Retirement eligibility may apply to earlier ages depending on service level (see benefits section) .

For vested deferred members, we assume that retirement will occur provided they have at least 10 years of service (5 years for both UPD and Airport Authority employees, excluding the 5 year permissible purchased service) on the later of attained age or:

General Members: Earlier of age 62 or age 55 and 20+ years of service

Safety Members: Earlier of age 55 or age 50 and 20+ years of service

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

Rates of Retirement at Selected Ages

Age	Elected Officials
50	-
51	-
52	-
53	15%
54	1
55	5
56	3
57	4
58	5
59	6
60	60
61	25
62	37
63	23
64	34
65	68
66	69
67	74
68	80
69	90
70	100

For vested deferred Elected Officials, we assume that retirement will occur provided they have at least 4 years of service on the later of attained age or the earlier of age 55 or age 53 and 8+ years of service.

If the inactive member is not vested, the liability is the member's contributions with interest.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

E. Economic Assumptions

Investment Return:	7.75% compounded per annum, net of expenses.
Interest Credited to Member Contributions:	7.75% compounded per annum.
Rate of Wage Increase:	4.00% compounded per annum.

Additional Merit Wage Increase:	Years of Service at Valuation Date	General	Safety
	0	5.00%	8.00%
1	4.00%	7.00%	
2	3.00%	6.00%	
3	2.00%	3.50%	
4	1.00%	2.00%	
5+	0.50%	0.50%	

Rate of Increase in Cost-of-Living:	2.00% compounded per annum. 4.00% compounded per annum for a closed group of special City safety officers.
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Total Payroll Increase (For amortization):	4.00% compounded per annum.
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COLA Annuity Benefit: For active members, there is a load on liabilities for retirement allowances to anticipate the impact of the annuitized employee COLA contributions at retirement. The load is 2.5% for the Unified Port District and 2.0% for the Airport Authority, and varies by membership for the City as follows:

General	Elected	Police	Fire	Lifeguard
2.19%	2.5%	3.51%	3.69%	3.58%

F. Assumption Changes since Last Valuation

- The calculated liability for DROP account balances reflects the reduction in the interest crediting and annuity conversion rates adopted by the Board in February 2009. In prior years, the liability was set equal to the account balances, with no adjustments.

For the City, the load on liabilities for retirement allowances for the COLA Annuity benefit was adjusted for each plan to reflect the change in employee contribution rates for this valuation. In the prior valuation, the load was 2.5% for all active members.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

5. Schedule of Active Member Valuation Data

SDCERS - City of San Diego

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2009	8,273	\$536,591,287	\$64,861	2.74%
6/30/2008	8,487	535,774,438	63,129	4.64
6/30/2007	8,494	512,440,197	60,330	0.38
6/30/2006	8,887	534,102,801	60,099	1.70
6/30/2005	9,436	557,630,735	59,096	6.65
6/30/2004	9,749	540,180,941	55,409	4.88

SDCERS - Unified Port District

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2009	564	\$40,370,258	\$71,578	4.68%
6/30/2008	565	38,634,835	68,380	2.87
6/30/2007	559	37,159,870	66,476	4.24
6/30/2006	532	33,927,372	63,773	1.45
6/30/2005	558	35,077,367	62,863	3.52
6/30/2004	575	34,915,741	60,723	8.24

SDCERS - Airport Authority

Valuation Date	Active Members	Annual Payroll	Average Annual Payroll	% Increases In Average Annual Pay
6/30/2009	338	\$24,693,427	\$73,057	6.06%
6/30/2008	341	23,488,283	68,881	1.64
6/30/2007	324	21,956,656	67,767	4.58
6/30/2006	295	19,115,804	64,799	4.51
6/30/2005	284	17,608,879	62,003	5.29
6/30/2004	265	15,605,857	58,890	5.80

Results from June 30, 2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), SDCERS' prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

6. Schedule of Retirees and Beneficiaries Added to and Removed From Rolls

SDCERS - City of San Diego

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/09	629	\$28,495,488	57.7	200	\$3,531,559	80.9	7,369	\$283,586,563	66.3	11.69%	\$38,484
6/30/08	446	19,239,330	58.2	185	3,487,942	79.8	6,940	253,894,388	66.6	8.43	36,584
6/30/07	486	19,465,413	59.2	208	3,634,273	81.8	6,679	234,162,141	66.5	9.55	35,059
6/30/06 ¹	619	24,676,720	56.6	213	3,150,596	80.7	6,401	213,747,320	66.6	18.62	33,393
6/30/05	443	18,168,020	58.6	171	2,342,920	80.4	5,995	180,189,027	67.1	11.71	30,057
6/30/04	434	16,057,596	59.0	178	2,634,535	79.8	5,723	161,294,618	67.2	11.30	28,184

SDCERS - Unified Port District

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/09	38	\$1,315,959	60.4	8	\$189,559	77.8	391	\$11,867,970	68.1	12.20%	\$30,353
6/30/08	24	825,588	61.6	12	207,767	74.8	361	10,577,683	68.2	8.09	29,301
6/30/07	38	1,147,197	62.5	14	276,143	80.1	349	9,786,345	67.9	12.09	28,041
6/30/06 ¹	29	1,131,237	57.4	10	333,265	80.2	325	8,731,137	68.2	14.09	26,865
6/30/05	20	786,944	59.0	4	38,109	81.2	306	7,652,853	68.5	12.86	25,009
6/30/04	26	895,159	61.8	10	135,199	76.7	290	6,780,541	68.3	15.08	23,381

SDCERS - Airport Authority

Year Ended	Added			Removed			Total			% Increase In Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age	Count	Annual Allowances	Avg. Age		
6/30/09	5	\$286,756	57.2	-	-	N/A	22	\$782,035	63.3	62.84%	\$35,547
6/30/08	5	148,248	59.3	-	-	N/A	17	480,239	64.1	46.61	28,249
6/30/07	5	115,187	65.0	-	-	N/A	12	327,559	65.1	57.72	27,297
6/30/06 ¹	1	21,612	53.5	1	\$39,833	65.5	7	207,688	64.1	-6.00	29,670
6/30/05	4	147,730	61.9	-	-	N/A	7	220,945	64.9	207.81	31,564
6/30/04	2	46,165	66.6	-	-	N/A	3	71,779	67.1	185.84	23,926

¹ June 30, 2006 and later valuations reflect contingent liabilities, DROP reserves, supplemental COLA reserves, and IRC section 415 limits.

Results from the June 30, 2004 actuarial valuation and prior were calculated by Gabriel, Roeder, Smith & Company, (GRS), SDCERS' prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

7. Aggregate Accrued Liabilities Solvency Test

SDCERS - City of San Diego

Valuation Date	Aggregate Actuarial Liabilities for (Dollars In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/09	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets ¹	100.00%	99.08%	0.00%
6/30/08	\$535,797	\$3,673,185	\$2,072,655	\$4,175,229	100.00	100.00	39.50
6/30/07 ⁴	482,526	3,101,594	2,013,532	4,413,411	100.00	100.00	41.19
6/30/06 ²	456,562	2,822,203	1,703,935	3,981,932	100.00	100.00	41.27
6/30/05	457,550	2,183,263	1,736,279	2,983,080	100.00	100.00	19.71
6/30/04	414,986 ³	1,946,660	1,635,681	2,628,680	100.00	100.00	16.33

SDCERS - Unified Port District

Valuation Date	Aggregate Accrued Liabilities For (Dollars In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/09	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets ¹	100.00%	100.00%	50.18%
6/30/08	\$20,784	\$137,803	\$130,112	\$223,879	100.00	100.00	82.78
6/30/07 ⁴	19,397	123,029	124,611	245,580	100.00	100.00	85.90
6/30/06 ⁵	18,374	115,021	113,143	230,585	100.00	100.00	83.15
6/30/05	16,140	101,542	102,955	203,286	100.00	100.00	64.45
6/30/04	15,122	86,242	96,708	163,691	100.00	100.00	60.70
6/30/04	12,885 ³	75,994	86,487	141,375	100.00	100.00	60.70

SDCERS - Airport Authority

Valuation Date	Aggregate Accrued Liabilities For (Dollars In Thousands)				Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	(B)	(C)	Reported Assets ¹	(A)	(B)	(C)
6/30/09	Active Member Contributions	Retirees And Beneficiaries	Remaining Active Members' Liabilities	Reported Assets ¹	100.00%	100.00%	81.79%
6/30/08	\$9,120	\$9,924	\$48,827	\$58,981	100.00	100.00	102.99
6/30/07 ⁴	7,335	6,341	43,131	58,096	100.00	100.00	111.71
6/30/06 ⁵	6,681	4,288	35,668	50,812	100.00	100.00	100.00
6/30/05	5,402	2,783	28,720	41,222	100.00	100.00	84.19
6/30/04	4,255	2,713	25,635	28,551	100.00	100.00	62.95
6/30/04	2,935 ³	795	19,848	16,225	100.00	100.00	62.95

¹ Actuarial Value of Assets. ² Reflects contingent liabilities (Corbett pre-July 1, 2000 and 13th check), DROP reserves, supplemental COLA reserves, and IRC section 415 limits. ³ Estimated by Cheiron.

⁴ The actuarial liability on June 30, 2007 and after is based on the entry age actuarial funding method. All prior years are based on the projected unit credit actuarial funding method. ⁵ Reflects contingent liabilities (13th check), DROP reserves, and IRC Section 415 limits. Results from June 30, 2004 and prior were calculated by GRS, the prior actuary. Cheiron is not responsible for this information.

San Diego City Employees' Retirement System
Summary of June 30, 2009 Valuation Results (continued)

8. Analysis of Financial Experience

Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

Development of Gain/(Loss) SDCERS - City of San Diego

Valuation Date/Income	Investment Experience	Combined Liability Gain (or Loss) Experience	Financial Experience Items Gain (or Loss)	Non-Recurring Gain (or Loss) During Year Items	Composite Gain (or Loss) During Year
6/30/2009	\$(811,380,431)	\$(7,525,648)	\$(818,906,079)	\$8,244,901	\$(810,661,178)
6/30/2008	(81,306,075)	31,375,539	(49,930,537)	(47,421,879)	(97,352,416)
6/30/2007	74,938,588	(39,748,777)	35,189,811	(225,348,741)	(190,158,930)
6/30/2006	158,924,281	46,325,305	205,249,586	209,389,562	414,639,148
6/30/2005	82,500,398	(45,724,516)	36,775,882	(35,852,494)	923,388
6/30/2004	34,002,415	(92,125,989)	(58,123,574)	N/A	(58,123,574)

Development of Gain/(Loss) SDCERS - Unified Port District

Valuation Date	Investment Income	Combined Liability Experience Gain (or Loss)	Financial Experience Gain (or Loss) Items	Non-Recurring Gain (or Loss) During Year Items	Composite Gain (or Loss) During Year
6/30/2009	\$(42,227,122)	\$(2,379,929)	\$(44,607,050)	\$843,209	\$(43,763,842)
6/30/2008	(4,428,892)	2,429,387	(1,999,505)	(2,615,672)	(4,615,176)
6/30/2007	4,899,047	(1,904,568)	2,994,479	(3,322,298)	(327,819)
6/30/2006	20,926,668	(787,854)	20,138,814	(3,595,264)	16,543,550
6/30/2005	3,062,374	(3,614,921)	(552,547)	(49,448)	(601,995)
6/30/2004	692,000	(2,762,000)	(2,070,000)	N/A	(2,070,000)

Development of Gain/(Loss) SDCERS - Airport Authority

Valuation Date	Investment Income	Combined Liability Experience Gain (or Loss)	Financial Experience Gain (or Loss) Items	Non-Recurring Gain (or Loss) During Year Items	Composite Gain (or Loss) During Year
6/30/2009	\$(9,584,108)	\$(1,391,991)	\$(10,976,099)	\$1,083,115	\$(9,892,984)
6/30/2008	(1,350,066)	1,842,772	492,707	(1,944,924)	(1,452,217)
6/30/2007	909,618	266,769	1,176,387	(2,029,171)	(852,784)
6/30/2006	5,886,918	2,845,946	8,732,864	(420,564)	8,312,300
6/30/2005	1,380,592	(2,588,040)	(1,207,448)	4,464,525	3,257,077
6/30/2004	560,000	(2,764,850)	(2,204,850)	N/A	(2,204,850)

Results from 6/30/2004 and prior were calculated by Gabriel, Roeder, Smith & Company (GRS), SDCERS' prior actuary. Cheiron is not responsible for this information.

9. Summary of SDCERS' Benefit Provisions

The following pages illustrate the various benefit provisions for the City's, Port's and Airport's SDCERS participants. For a complete description of these benefits, please call SDCERS at (800) 774-4977 or (619) 525-3600 and request a Summary Plan Description.

**San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions
As of June 30, 2009**

City of San Diego

<p>1. Membership Requirements</p>	<p>Membership is mandatory upon employment with the City, for all full, three-quarter, and half-time classified employees and any unclassified employees hired on or after 8/11/1993. (§24.0104)</p>
<p>2. Monthly Base Salary for Benefits</p>	<p>Highest consecutive 12 month average in any qualified employment with a California government jurisdiction (§24.0103) subject to a 10% increase for those hired before July 1, 2002, if the General or Safety Member elects such an increase in lieu of an increased benefit formula.</p>
<p>3. Service Retirement Eligibility General Members Safety Members (includes Fire, Lifeguard & Police) Elected Officers</p>	<p>Age 62 with 10 years of service credit, or age 55 with 20 years of service credit. (§141 of City Charter)</p> <p>Age 55 with 10 years of service credit, or age 50 with 20 years of service credit. (§141 of City Charter)</p> <p>Age 55 with 4 years of service. Eligible to retire at any age with 8 years of service, however, benefit is reduced by 2% per year for each year under age 55. (§24.1705)</p>
<p>Benefit Formula Per Year of Service General Members</p>	<p>Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or, (3) 2.5% per year of service at age 55, and increasing to 2.8% at age 65, not to exceed 90% of Final Compensation. (§24.0402)</p>
<p>General Members (Andrecht-Covered) (Applies to Airport only)</p>	<p>N/A</p>
<p>Executive General Members Port & Airport only (where not specifically identified, treated as part of General Members)</p> <p>Safety Members (City - Fire & Police, Port - Harbor Police)</p>	<p>N/A</p> <p>Choice of: (1) 2.5% per year of service at age 50, increasing to 2.9999% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or, (2) 3.0% per year of service at age 50 and above, not to exceed 90% of Final Compensation. (§24.0402)</p>
<p>Safety Members (City - Lifeguard)</p> <p>Elected Officers</p>	<p>Choice of: (1) 2.2% at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation, not to exceed 90% of Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation. (§24.0402)</p> <p>3.5% per year of service. A 2% annual reduction factor applies to benefits for Elected Officers retiring prior to age 55. (§24.1705)</p>

Unified Port District

**San Diego County
Regional Airport Authority**

<p>Salaried Employees - immediate eligibility upon employment (compulsory) for all Safety members and for General Members hired before January 1, 2009. For General Members hired on or after January 1, 2009, the Member is a participant for purposes of establishing reciprocity, but does not begin earning service credit until the 1st day of their 6th year of employment (§ 0101).</p> <p>Highest one-year average for general members hired before October 1, 2006, and all safety members. For General members hired on or after October 1, 2006, highest 3-year average (§0102). Subject to a 10% increase for General Members hired before January 1, 2009 and all Safety Members, if the Member elects such increase in lieu of an increased benefit formula.</p>	<p>Membership is mandatory upon employment for all full-time Airport employees. (§0101)</p> <p>Highest contiguous 26 bi-weekly pay periods (§0102), subject to a 10% increase if the Member elects such increase in lieu of an increased benefit formula.</p>
<p>Age 62 with 5 years of service credit, or age 55 with 20 years of service credit. (§0300)</p>	<p>Age 62 with 5 years of service, or age 55 with 20 years of service. (§0300)</p>
<p>Age 55 with 5 years of service credit, or age 50 with 20 years of service credit. (§0301)</p>	<p>N/A</p>
<p>N/A</p>	<p>N/A</p>
<p>N/A</p>	<p>N/A</p>
<p>For General Members hired before November 10, 2001, choice of (1) formula in place on December 31, 2001 with 10% increase in Final Average Compensation, (2) "Andrecht" formula effective as of January 1, 2002, or (3) "2.5% at 55" multiplier with a benefit cap of 90% of Final Average Compensation (§ 0300(g)).</p> <p>For General Members hired on or after November 10, 2001 and before January 1, 2009, "2.5% at 55" multiplier with a benefit cap of 90% of Final Average Compensation (§ 0300(h)).</p> <p>For General and Executive General Members hired on or after January 1, 2009, the formula is: (1) for years 1-5 of service credit, 0.75% of Final Compensation per year; (2) for years 6-10 of service credit, 1% of Final Compensation per year; (3) for years 11-15 of service credit, 1.25% of Final Compensation per year; and (4) beginning with service credit year 15, 1.5% of Final Compensation per year (§ 0301(g)).</p>	<p>Choice of: (1) 2.0% per year of service at age 55, increasing to 2.55% at age 65, with an additional 10% added to Final Compensation; (2) 2.25% per year of service at age 55, and increasing to 2.55% at age 65; or (3) 2.5% per year of service at age 55, and increasing to 3.0% at age 65, not to exceed 90% of Final Compensation.</p>
<p>Executive General Members hired before January 1, 2009 receive "3% at 55" multiplier without an increase in Final Average Compensation..</p>	<p>Effective as of 12/21/2002, Service Retirement calculated at 3.0% at age 55 or older.</p>
<p>Choice of: (1) 2.5 % at age 50, increasing to 2.77% at age 55, with an additional 10% added to Final Compensation; or (2) 3.0% at age 50 and above, not to exceed 90% of Final Compensation.</p>	<p>N/A</p>
<p>N/A</p>	<p>N/A</p>
<p>N/A</p>	<p>N/A</p>

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2009

City of San Diego

Retirement Payment Options

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide larger annuity benefit for the member.

Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 3 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - The member may select this option in addition to one of the other five payment choices only if the member was enrolled as a General Member in SDCERS before January 1, 1982, and are eligible to receive a Social Security benefit. The member would receive an increased monthly allowance from SDCERS based on their estimated Social Security benefit. When the member turns 65, SDCERS will then actuarially reduce their monthly retirement allowance for the remainder of their life. This reduction will be greater than the adjusted amount the member received from the time the member retired to the time the member turned 65. After the member's death, their surviving spouse or beneficiary will receive a continuance based on the non-adjusted benefit amount from the payment option the member selected at retirement. (§24.1102, 24.0210, 24.0310)

Unified Port District

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.

Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 3 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - Unified Port District employees participate in Social Security.

San Diego County Regional Airport Authority

Choice of:

Maximum Benefit - provides the highest possible monthly allowance to the member for their lifetime and guarantees their spouse a 50% automatic continuance after the member dies for the rest of his or her life. If unmarried, the member may choose to receive a lump sum refund of surviving spouse contributions and interest or treat them as voluntary additional contributions to provide a larger annuity benefit for the member.

Option 1 - receive a reduced monthly retirement allowance until the member's death. If the member dies before they receive the total amount of their accumulated contributions, SDCERS will pay the balance to their beneficiary or estate. If the member dies after their annuity payments exceed their accumulated contributions, no payments will be made to the member's beneficiary or estate.

Option 2 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their spouse or beneficiary will receive a continuance equal to 100% of the member's reduced monthly retirement allowance for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 3 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a retirement allowance equal to 50% of the member's reduced monthly benefit for the rest of his or her life. The amount of the reduction depends upon the age difference between the member and their beneficiary.

Option 4 - receive a reduced monthly retirement allowance until the member's death. When the member dies, their beneficiary will receive a percentage of the member's reduced monthly benefit in an amount selected by the member, for the rest of his or her life. The higher the percentage to the beneficiary and the greater the age difference between the member and their beneficiary, the greater the reduction in the member's monthly retirement allowance.

Social Security Integrated Option - Airport Authority employees participate in Social Security.

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2009

City of San Diego

4. Non-Industrial Disability	Ten years of service credit.(Charter §141)
Eligibility All Members	
Benefit Formula Per Year of Service	Choice of: (1) 1.5% per year of service multiplied by final compensation*; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. (§24.0502, 24.0505)
General Members	
Safety Members	Choice of: (1) 1.8% per year of service; (2) one-third of final compensation*; or (3) the earned service retirement benefit, if eligible. (§24.0502, 24.0504)
Elected Officers	Earned service retirement benefit. (§24.1707)
5. Industrial Disability	No age or service requirement (§24.0501)
Eligibility All Members	
Benefit Formula Per Year of Service	Choice of: (1) 50% of final compensation*; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0505)
General Members	
Safety Members	Choice of: (1) 50% of final compensation*; or (2) the earned service retirement benefit, if eligible. (§24.0502, 24.0503)
Elected Officers	Earned service retirement benefit. (§24.1707)
6. Non-Industrial Death Before Eligible to Retire	Refund of employee contributions with interest plus 1/12 of final compensation, multiplied by years of service credit, up to maximum of 1/2 of final compensation. (§24.0702)
7. Non-Industrial Death After Eligible to Retire for Service	50% of earned benefit payable to eligible surviving spouse. (§24.0704)
8. Industrial Death	50% of the final compensation divided into 12 equal payments each year. (§24.0705)
General Members	
Safety Members	50% of the final compensation divided into 12 equal payments each year. (§24.0705)
9. Death After Retirement	50% of member's unmodified allowance continued to eligible spouse. (§24.0601) \$2,000 payable in lump sum to the beneficiary or the estate of the retiree. (§24.0710)

*Per Board decision, the 10% increase on final average compensation has been removed

Unified Port District

**San Diego County
Regional Airport Authority**

<p>Ten years of service credit. General Members hired on or after January 1, 2009 must have 10 years of service credit, which means 15 years of Port employment (§ 0503).</p>	<p>Ten years of service credit. (§0502)</p>
<p>For General Members hired before January 1, 2009, the greater of 1.5% per year of service, one-third of final compensation, or the earned service retirement benefit (§ 0507).</p>	<p>Choice of: (1) 1.5% per year of service multiplied by final compensation; (2) one-third of final compensation; or (3) the earned service retirement benefit, if eligible. (§0503)</p>
<p>For General Members hired on or after January 1, 2009, the greater of 11% of Final Compensation or earned service retirement benefit (§ 0503).</p>	<p>N/A</p>
<p>Greater of 1.8% per year of service, one-third of final compensation, or the earned service retirement benefit (§ 0505).</p>	<p>N/A</p>
<p>N/A</p>	
<p>No age or service requirement for Members hired before January 1, 2009. General Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for an industrial disability benefit (§ 0500).</p>	<p>No age or service requirement. (§0500)</p>
<p>For General Members hired before January 1, 2009, greater of one-third of final compensation, or the earned service retirement benefit (§ 0502).</p>	<p>Choice of: (1) 50% of final compensation; or (2) the earned service retirement benefit, if eligible. (§0501)</p>
<p>For General Members hired on or after January 1, 2009, the greater of 11% of Final Compensation or earned service retirement benefit (§ 0503).</p>	<p>N/A</p>
<p>Greater of one-half of final compensation, or the earned service retirement benefit (§ 0501).</p>	<p>N/A</p>
<p>N/A</p>	
<p>Refund of employee contributions with interest plus one month's salary for each completed year of service to a maximum of six months salary. General Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for a non-industrial death benefit.</p>	<p>Refund of employee contributions with interest plus plus one month's salary for each completed year of service to a maximum of six months salary.</p>
<p>50% of earned benefit payable to eligible surviving spouse, domestic partner, or child under 21 years of age. General Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for a non-industrial death benefit.</p>	<p>50% of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age.</p>
<p>50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age. General Members hired on or after January 1, 2009 must have 5 years of Port employment to be eligible for an industrial death benefit.</p>	<p>50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age.</p>
<p>50% of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner, or child under 21 years of age.</p>	<p>N/A</p>
<p>50% of member's unmodified allowance continued to eligible surviving spouse, domestic partner, or child under 21 years of age. \$2,000 payable in lump sum to the beneficiary or the estate of the retiree.</p>	<p>50% of member's unmodified allowance continued to eligible surviving spouse, domestic partner, or child under 21 years of age. \$2,000 payable in lump sum to the beneficiary or the estate of the retiree.</p>

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2009

City of San Diego

<p>10. Withdrawal Provisions</p>	<p>Pre-12/8/76 hires – if contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire.</p> <p>Post-12/7/76 hires –</p> <ol style="list-style-type: none"> 1. Less than ten years of service - Refund of accumulated member contributions with interest, or may keep contributions on deposit with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system. (§24.0206, 24.0306, 24.1005) 2. Ten or more years of service - If contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire. (§24.0206, 24.0306)
<p>11. Post-Retirement Cost-of-Living Benefits</p> <p>General Members</p> <p>Safety Members</p>	<p>Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.1505)</p> <p>Based on changes in Consumer Price Index, to a maximum of 2% per year. (§24.1505)</p>
<p>12. Cola Annuity</p>	<p>Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement. (§24.0103)</p>
<p>13. Member Contributions</p>	<p>Vary by age at time of entrance into SDCERS (§24.0201, 24.0301). Any portion of these contributions paid by the plan sponsor (employer), are not directly reflected in either the member (employee) contributions or related refund calculations.</p>
<p>14. Internal Revenue Code Compliance</p>	<p>Benefits provided by SDCERS' Plans are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code. (§24.1004)</p>
<p>15. Blended Benefit with Participating Agencies</p>	<p>Members may retire and receive benefits from multiple Plan IDs (e.g. – a City police officer could have also worked for the Airport Authority).</p>

Unified Port District

**San Diego County
Regional Airport Authority**

Pre 12/8/76 hires – if contributions are left on deposit, entitled to earned benefits commencing anytime after eligible to retire.

Post 12/8/76 hires –

1. Less than five years of service credit (ten years of service if employee terminated before December 31, 2002) - Refund of accumulated member (employee) contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system.

2. Five or more years of service credit (ten or more years of service if employee terminated before December 31, 2002) - If contributions are left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.

1. Less than five years of service credit - Refund of accumulated member (employee) contributions with interest, or may keep deposits with SDCERS and earn additional interest, and use service with a reciprocal system to establish eligibility for earned benefits upon concurrent retirement from reciprocal system.

2. Five or more years of service credit - If contributions are left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.

Based on changes in Consumer Price Index, to a maximum of 2% per year.

Based on changes in Consumer Price Index, to a maximum of 2% per year.

Based on changes in Consumer Price Index, to a maximum of 2% per year.

N/A

Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement.

Actuarial equivalent of accumulated contributions in cost of living annuity account at time of retirement.

Vary by age at time of entrance into SDCERS (§0200). Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.

Vary by age at time of entrance into SDCERS (§0200). Any portion of these contributions paid by the plan sponsor are not directly reflected in either the member contributions or related refund calculations.

Benefits provided by SDCERS' Plans are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code.

Benefits provided by SDCERS' Plans are subject to the limitations set forth in Section 415 in accordance with the "grandfather" election in Section 415(b)(10) of the Internal Revenue Code.

Members may retire and receive benefits from multiple Plan IDs (e.g. – a Unified Port District Employee could have also worked for the Airport Authority).

Members may retire and receive benefits from multiple Plan IDs (e.g. – an Airport Authority member could have also worked for the Unified Port District).

San Diego City Employees' Retirement System
Summary of SDCERS' Benefit Provisions (continued)
As of June 30, 2009

Deferred Retirement Option Plan (DROP)

The Deferred Retirement Option Plan (DROP) is a voluntary program created by SDCERS' plan sponsors to provide some SDCERS' members with an alternative method to accrue benefits in SDCERS. For actuarial valuation purposes, SDCERS' members entering DROP are considered "retired" the date they enter DROP.

A SDCERS' member's decision to enter DROP is irrevocable. If a SDCERS member participates in DROP, they will have access to a lump sum or annuity benefit in addition to their normal monthly retirement allowance when they retire. DROP was initially offered by SDCERS' sponsors on a trial basis for a three-year period ending March 31, 2000. The option to enter DROP was discontinued by the City, Port, and Airport for employees hired on or after July 1, 2005, October 1, 2005 and October 3, 2006, respectively. SDCERS' members are eligible to participate in DROP when they are eligible for a service retirement. A DROP participant continues to work for their respective plan sponsor and receives a regular paycheck. Both the plan sponsor and the DROP Participant no longer make retirement contributions to SDCERS, and the DROP participant stops earning creditable service. A DROP participant continues to receive most of the employer-offered benefits available to regular employees.

A SDCERS' member must select a retirement option when they enter DROP. If the DROP participant elects to leave a continuance to a beneficiary, the DROP participant must name a beneficiary at that time as well. The selection of a retirement option and the designation of a beneficiary for a continuance are irrevocable and cannot be changed once the first payment is made into a DROP account.

SDCERS' members electing to enter DROP must agree to participate in the program for a specific period of time, up to a maximum of 5 years; this specific time period cannot be modified once agreed to. A DROP participant must end employment with their employer (plan sponsor) on or before the end of the selected DROP participation period.

When a SDCERS member participates in DROP, a DROP account is set up for that individual. The money credited to a DROP account comes from six sources:

1. A DROP participant's contributions – 3.05% of salary each pay period of participation in DROP (no employee contributions are made to SDCERS during this time);
2. The plan sponsor's contributions – 3.05% of salary each pay period of participation in DROP (no employee contributions are made to SDCERS during this time);
3. The DROP participant's monthly retirement allowance, as determined when entering DROP;
4. The COLA (cost of living adjustment) increases to a monthly retirement allowance that occur while participating in DROP;
5. SDCERS' Supplemental Benefit (13th Check) payments made while participating in DROP; and
6. Interest credited to the DROP account each quarter, at the rate determined by SDCERS' Board.

The DROP benefit is the value of a DROP participant's account at the end of the DROP participation period. It is available either in a lump sum or periodic distribution. Once a participant leaves DROP, the member begins receiving a monthly retirement allowance directly.

SDCERS will distribute the funds in a participant's DROP account when they leave employment and begin retirement. The distribution is made as a single lump sum, periodic payments in 240 equal monthly payments, or as otherwise allowed by SDCERS' Board, subject to the applicable provisions of the Internal Revenue Code.

For further information on the DROP program, please contact SDCERS' office at (800) 774-4977 or (619) 525-3600, or visit SDCERS' Web site at www.sdcers.org.



Statistical Section

This section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how SDCERS' financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for SDCERS' net assets, additions, deductions, and different types of retirement benefits. The financial and operating trend information is located on the following pages.

San Diego City Employees' Retirement System Changes in Net Assets

For the Years Ended June 30

10-Year Review (Dollars in Thousands)

Fiscal Year	Additions	Deductions	Net Change	Net Assets	
				Beginning of Year	End of Year
2010	\$772,019	\$340,375	\$431,644	\$3,354,316	\$3,785,960
2009	(707,507)	323,024	(1,030,531)	4,384,847	3,354,316
2008	(166)	296,707	(296,873)	4,681,720	4,384,847
2007	945,919	278,023	667,896	4,013,825	4,681,720
2006	822,060	259,987	562,073	3,451,752	4,013,825
2005	599,218	240,213	359,006	3,092,746	3,451,752
2004	751,637	200,990	550,647	2,542,100	3,092,746
2003	288,307	176,667	111,639	2,527,890	2,542,100
2002	86,720	158,929	(72,210)	2,599,281	2,527,890
2001	109,126	160,942	(51,816)	2,652,492	2,599,281

San Diego City Employees' Retirement System Changes in Net Assets by Plan Sponsor¹

For the Years Ended June 30 (Dollars in Thousands)

Fiscal Year	Additions	Deductions	Net Change	Net Assets	
				Beginning of Year	End of Year
City of San Diego					
2010	\$718,158	\$325,750	\$392,408	\$3,126,130	\$3,518,538
2009	(667,706)	309,584	(977,290)	4,103,420	3,126,130
2008	(1,560)	284,166	(285,726)	4,389,146	4,103,420
San Diego Unified Port District					
2010	\$37,282	\$13,355	\$23,927	\$179,564	\$203,491
2009	(35,155)	12,419	(47,574)	227,138	179,564
2008	(772)	11,558	(12,330)	239,468	227,138
San Diego County Regional Airport Authority					
2010	\$16,579	\$1,270	\$15,309	\$48,622	\$63,931
2009	(4,646)	1,021	(5,667)	54,289	48,622
2008	2,166	983	1,183	53,106	54,289

¹ In March 2007, the Board adopted a Declaration of Group Trust, effective July 1, 2007. Under the Group Trust, the City, Port, and Airport plans are legally treated as separate plans. Prior to July 1, 2007, the SDCERS plan was a multiple-employer plan and changes in net assets was not captured for each individual plan sponsor.

San Diego City Employees' Retirement System
Additions to Plan Net Assets by Source
For Fiscal Years Ended June 30
(Dollars in Thousands)

	Fiscal Year	Plan Sponsor Contributions	Member Contributions Paid By Plan Sponsors	Member Contributions	Member Contributions for Service Purchased	Earned Interest on PSC Installment Contracts ¹	DROP Contributions (plus Pension Allowances)	Net Investment Income ²	Other Income	Total Additions
Dollars	2010	\$207,334	\$12,313	\$56,340	\$3,936	\$758	\$ ⁻⁵	\$491,045	\$293	\$772,019
% of Total		26.9%	1.6%	7.3%	0.5%	0.1%	-	63.6%	0.0%	100.0%
Dollars	2009	172,850	25,284	45,362	4,167	927	⁻⁵	(956,422)	325	(707,507)
% of Total		24.4	3.6	6.4	0.6	0.1	-	-135.2	0.0	100.0
Dollars	2008	175,001	20,217	47,287	7,262	1,022	⁻⁵	(251,290)	335	(166)
% of Total		105,422.3	12,178.9	28,486.1	4,374.7	615.7	-	-151,379.5	201.8	100.0
Dollars	2007	181,388	22,729	43,928	6,043	1,352	⁻⁵	689,860	619	945,919
% of Total		19.2	2.4	4.6	0.6	0.1	-	72.9	0.1	100.0
Dollars	2006	282,770	23,632	32,960	9,646	1,826	⁻⁵	455,726	15,500	822,060
% of Total		34.4	2.9	4.0	1.2	0.2	-	55.4	1.9	100.0
Dollars	2005	145,238	33,989	18,860	49,339	1,583	⁻⁵	350,209	-	599,218
% of Total		24.2	5.7	3.1	8.2	0.3	-	58.4	-	100.0
Dollars	2004	87,862	33,951	16,300	75,420	908	⁻⁵	537,196	-	751,637
% of Total		11.7	4.5	2.2	10.0	0.1	-	71.5	-	100.0
Dollars	2003	72,559 ³	31,606	20,918	40,017	478	⁻⁵	122,729	-	288,307
% of Total		25.2	11.0	7.3	13.9	0.2	-	42.6	-	100.0
Dollars	2002	49,963	28,794	24,192	29,354	-	29,893	(75,935)	459	86,720
% of Total		57.6	33.2	27.9	33.8	-	34.5	-87.6	0.5	100.0
Dollars	2001	44,599	25,566	35,413 ⁴	-	-	28,303	(25,126)	371	109,126
% of Total		40.9	23.4	32.5	-	-	25.9	-23.0	0.3	100.0

¹ Earned Interest on PSC Installment Contracts was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS' independent auditor to conform with generally accepted accounting principles. In prior years, Earned Interest on PSC Installment Contracts was included in Member (Employee) Contributions for Purchased Service in the Statement of Changes in Plan Net Assets.

² For years prior to 2006, net Investment Income includes all SDCERS' earnings for both the Defined Benefit Pension Plan and the Post-Employment Healthcare Benefits Plan.

³ Amount includes an additional plan sponsor (employer) contribution made by the City of San Diego for a portion of their net pension obligation applicable to fiscal years 1997 - 2002, totaling \$9,923,538. For further details concerning this additional plan sponsor (employer) contribution, please see the Schedules of Plan Sponsors' (Employers') Contributions and the Notes to Schedules of Plan Sponsors' (Employers') Contributions in the Required Supplementary Information located in the Financial Section.

⁴ Prior to 2002, Members' Contributions included Contributions for Purchased Service.

⁵ Reflects restatement of DROP as a plan liability effective June 30, 2004 with June 30, 2003 restated.

Statistical Section

**San Diego City Employees' Retirement System
Deductions from Plan Net Assets by Type
For Fiscal Years Ended June 30**

(Dollars in Thousands)

	Fiscal Year	Retirement, Death and Disability Benefits	Health Insurance Payments ⁴	Administrative Expenses	DROP Program Interest Expense ³	Allowance for Uncollectable Purchased Service Payments ¹	Litigation Settlement Expense ²	Refund of Member Contributions	Total Deductions
Dollars	2010	\$296,554	\$ -	\$14,968	\$25,375	\$ -	\$ -	\$3,478	\$340,375
% of Total		87.1%	-	4.4%	7.5%	-	-	1.0%	100.0%
Dollars	2009	277,131	-	14,726	27,098	-	-	4,069	323,024
% of Total		85.8	-	4.6	8.4	-	-	1.3	100.0
Dollars	2008	254,014	-	15,776	23,050	-	-	3,867	296,707
% of Total		85.6	-	5.3	7.8	-	-	1.3	100.0
Dollars	2007	235,263 ³	-	19,103	20,263	-	-	3,394	278,023
% of Total		84.6	-	6.9	7.3	-	-	1.2	100.0
Dollars	2006	214,705 ³	-	18,438	17,748	-	4,536	4,560	259,987
% of Total		82.6	-	7.1	6.8	-	1.7	1.8	100.0
Dollars	2005	201,007 ³	7,910 ⁴	11,961	16,520	12	-	2,803	240,213
% of Total		83.7	3.3	5.0	6.9	0.0	-	1.2	100.0
Dollars	2004	161,659 ³	12,830	10,163	12,735	245	1,249	2,109	200,990
% of Total		80.4	6.4	5.1	6.3	0.1	0.6	1.0	100.0
Dollars	2003	145,396 ³	11,450	8,155	9,218	69	-	1,379	175,667
% of Total		82.8	6.5	4.6	5.2	0.0	-	0.8	100.0
Dollars	2002	141,038	8,882	7,867	-	148	-	994	158,929
% of Total		88.7	5.6	5.0	-	0.1	-	0.6	100.0
Dollars	2001	145,992	7,208	6,279	-	-	-	1,463	160,942
% of Total		90.7	4.5	3.9	-	-	-	0.9	100.0

¹ Allowance for Uncollectable Purchased Service Payments was presented separately in the Statement of Changes in Plan Net Assets for the Defined Benefit Pension Plan as a result of a restatement suggested by SDCERS' prior independent auditor. SDCERS' current independent auditor approves of management's practice to show purchased service receivables at gross values, since any contract cancellation reduces contract liability by an offsetting amount.

² Litigation Settlement Expense is SDCERS' portion of the plaintiff's attorney fee awarded as a result of the FY 2005 Gleason settlement and the Hanson, Bridgett settlement in FY 2006.

³ A change in accounting treatment of DROP assets to report DROP as a plan liability was implemented in FY 2004 and applied retroactively to FY 2003. An analysis of the method for reporting plan liabilities under GASB 25 was performed, which led to a conclusion that it was preferable to report the DROP program as a liability, rather than as a component of plan net assets. As a result, DROP payments are now processed through the DROP liability account instead of through the Statement of Plan Net Assets and interest granted on DROP program balances as a deduction.

⁴ In FY 2005, the City started funding healthcare benefits directly by making contributions to a separate healthcare insurance fund for this plan.

**San Diego City Employees' Retirement System
Allowances Being Paid
Service and Disability Retirees and Beneficiaries
As of Years Ended June 30**

		City of San Diego					
		As of Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ²	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2009		4,975	1,257	27	1,110	7,369
Annual Allowances			\$231,698,837	\$36,337,577	\$688,948	\$14,861,201	\$283,586,563
No. of Allowances	2008		4,597	1,244	28	1,071	6,940
Annual Allowances			205,288,070	34,628,149	617,394	13,360,775	253,894,388
No. of Allowances	2007		4,354	1,245	28	1,052	6,679
Annual Allowances			187,827,705	33,422,130	605,485	12,306,821	234,162,141
No. of Allowances	2006		4,118	1,237	29	1,017	6,401
Annual Allowances			170,186,825	31,992,059	594,020	10,974,416	213,747,320
No. of Allowances	2005		3,728	1,239	30	998	5,995
Annual Allowances			141,153,674	29,094,290	568,576	9,372,487	180,189,027
No. of Allowances	2004		3,480	1,247	31	965	5,723
Annual Allowances			123,675,151	28,351,092	588,900	8,679,475	161,294,618
No. of Allowances	2003		3,260	1,239	30	938	5,467
Annual Allowances			109,471,010	27,164,406	509,400	7,771,772	144,916,588
No. of Allowances	2002		3,043	1,247	42	811	5,143
Annual Allowances			89,330,198	25,716,957	599,081	5,908,340	121,554,576
No. of Allowances	2001		2,945	1,238	40	789	5,012
Annual Allowances			81,737,884	24,732,266	543,007	5,624,401	112,637,558
No. of Allowances	2000		2,753	1,207	38	791	4,789
Annual Allowances			66,442,363	23,253,156	499,506	5,153,726	95,348,751

¹ The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the San Diego Unified Port District (Port); interim actuarial valuations as of December 31, 2002, were performed to reflect the two separate agencies (plan sponsors). All retirees remained with the Port as of December 21, 2002; therefore, no allowances were paid on behalf of the Airport.

² Total Deaths Before Retirement represents one-time payments to members' beneficiaries and refund of members' contributions, plus interest.

San Diego City Employees' Retirement System
Allowances Being Paid
Service and Disability Retirees and Beneficiaries (continued)
As of Years Ended June 30

San Diego Unified Port District¹

	As of Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement ²	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2009	268	63	1	59	391
Annual Allowances		\$9,744,449	\$1,279,376	\$11,387	\$832,758	\$11,867,970
No. of Allowances	2008	246	60	1	54	361
Annual Allowances		8,693,247	1,184,093	11,177	689,165	10,577,683
No. of Allowances	2007	233	61	1	54	349
Annual Allowances		7,910,275	1,175,107	10,970	689,993	9,786,345
No. of Allowances	2006	211	62	1	51	325
Annual Allowances		6,949,595	1,175,661	10,106	595,775	8,731,137
No. of Allowances	2005	192	60	1	53	306
Annual Allowances		6,003,128	1,081,191	9,908	558,626	7,652,853
No. of Allowances	2004	180	59	1	50	290
Annual Allowances		5,220,222	1,054,400	9,714	496,204	6,780,540
No. of Allowances	2003	162	60	1	51	274
Annual Allowances		4,343,496	1,022,188	28,160	498,358	5,892,202
No. of Allowances	12/31/2002 ¹	167	62	1	48	278
Annual Allowances		4,242,311	1,021,125	9,337	439,769	5,712,542
No. of Allowances	2002	158	60	2	43	263
Annual Allowances		3,892,412	988,565	19,653	359,284	5,259,914
No. of Allowances	2001	142	58	2	44	246
Annual Allowances		3,108,368	883,234	18,438	336,892	4,346,932
No. of Allowances	2000	145	57	2	38	242
Annual Allowances		3,106,843	800,421	17,854	219,680	4,144,798

San Diego City Employees' Retirement System
Allowances Being Paid
Service and Disability Retirees and Beneficiaries (continued)
As of Years Ended June 30

San Diego County Regional Airport Authority¹

	As of Fiscal Year	Total Service Retirements	Total Disability Retirements	Total Deaths Before Retirement	Total Deaths After Retirement	Total Allowances Being Paid
No. of Allowances	2009	20	1	-	1	22
Annual Allowances		\$745,037	\$14,074	-	\$22,924	\$782,035
No. of Allowances	2008	16	-	-	1	17
Annual Allowances		457,761	-	-	22,478	480,239
No. of Allowances	2007	11	-	-	1	12
Annual Allowances		305,519	-	-	22,040	327,559
No. of Allowances	2006	6	-	-	1	7
Annual Allowances		186,076	-	-	21,612	207,688
No. of Allowances	2005	7	-	-	-	7
Annuals Allowances		220,945	-	-	-	220,945
No. of Allowances	2004	3	-	-	-	3
Annual Allowances		71,779	-	-	-	71,779
No. of Allowances	2003	1	-	-	-	1
Annual Allowances		25,112	-	-	-	25,112

¹ The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the San Diego Unified Port District (Port); interim actuarial valuations as of December 31, 2002, were performed to reflect the two separate agencies (plan sponsors). All retirees remained with the Port as of December 31, 2002; therefore, no allowances were paid on behalf of the Airport.

San Diego City Employees' Retirement System
Retired Members by Type of Benefit
For the Year Ended June 30, 2009

City of San Diego

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	1,905	562	490	853
\$1,001 - \$2,000	1,527	932	393	202
\$2,001 - \$3,000	1,138	891	190	57
\$3,001 - \$4,000	834	721	84	29
\$4,001 - \$5,000	791	718	68	5
\$5,001 - \$6,000	504	471	30	3
\$6,001 - \$7,000	308	303	5	-
\$7,001 - \$8,000	136	134	1	1
\$8,001 - \$9,000	71	70	1	-
\$9,001 - \$10,000	35	34	1	-
Over \$10,000	34	34	-	-
	7,283	4,870	1,263	1,150

San Diego Unified Port District

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	128	56	31	41
\$1,001 - \$2,000	92	59	18	15
\$2,001 - \$3,000	81	67	13	1
\$3,001 - \$4,000	37	35	-	2
\$4,001 - \$5,000	24	23	1	-
\$5,001 - \$6,000	15	14	-	1
\$6,001 - \$7,000	2	2	-	-
\$7,001 - \$8,000	4	4	-	-
\$8,001 - \$9,000	3	3	-	-
\$9,001 - \$10,000	2	2	-	-
Over \$10,000	3	3	-	-
	391	268	63	60

San Diego County Regional Airport Authority

Amount of Monthly Benefit	Total Allowances Paid	Type of Retirement		
		Service Retirements	Disability Retirements	Death Beneficiaries
\$0 - \$1,000	2	2	-	-
\$1,001 - \$2,000	5	3	1	1
\$2,001 - \$3,000	9	9	-	-
\$3,001 - \$4,000	2	2	-	-
\$4,001 - \$5,000	1	1	-	-
\$5,001 - \$6,000	1	1	-	-
\$6,001 - \$7,000	-	-	-	-
\$7,001 - \$8,000	1	1	-	-
\$8,001 - \$9,000	1	1	-	-
\$9,001 - \$10,000	-	-	-	-
Over \$10,000	-	-	-	-
	22	20	1	1

Note: Data above reflects the number of retirement allowances paid. Death beneficiaries includes lump sum payments to beneficiaries for members who died before or after retirement.

**San Diego City Employees' Retirement System
Average Benefit Payment Amounts
As of Years Ended June 30**

City of San Diego

Fiscal Year	Averages						
	Number of Allowances	Annual Allowances Paid	Annual Allowance	Percentage Increase Over Prior Year	Attained Age	Age At Retirement	Service Years At Retirement
2009	7,369	\$283,586,563	\$38,484	5.19%	66.3	55.3	23.6
2008	6,940	253,894,388	36,584	4.35	66.6	55.0	23.5
2007	6,679	234,162,141	35,059	4.99	66.5	54.8	23.5
2006	6,401	213,747,320	33,393	11.10	66.6	54.8	23.4
2005	5,995	180,189,027	30,057	6.65	67.1	54.8	23.1
2004	5,723	161,294,618	28,184	6.32	67.2	54.2	22.9
2003	5,467	144,916,588	26,508	12.15	67.2	54.2	22.7
2002	5,143	121,554,576	23,635	5.17	67.7	54.2	21.7
2001	5,012	112,637,558	22,474	12.88	67.5	54.2	21.2
2000	4,789	95,348,751	19,910	5.58	68.1	54.4	20.9

San Diego Unified Port District¹

2009	391	\$11,867,970	\$30,353	3.59%	68.1	57.9	17.6
2008	361	10,577,683	29,301	4.49	68.2	57.6	17.7
2007	349	9,786,345	28,041	4.38	67.9	57.6	17.5
2006	325	8,731,137	26,865	7.42	68.2	57.5	17.5
2005	306	7,652,853	25,009	6.96	68.5	57.6	17.4
2004	290	6,780,540	23,381	8.73	68.3	57.6	17.0
2003	274	5,892,202	21,504	4.65	68.2	57.3	16.7
12/31/02	278	5,712,542	20,549	2.75	68.6	57.4	16.6
2002	263	5,259,914	20,000	13.18	68.4	57.4	16.5
2001	246	4,346,932	17,670 ²	3.17	68.3	57.4	15.8
2000	242	4,144,798	17,127	5.22	68.5	57.7	16.1

San Diego County Regional Airport Authority¹

2009	22	\$782,035	\$35,547	25.83%	63.3	61.3	16.6
2008	17	480,239	28,249	3.49	64.1	62.7	17.0
2007	12	327,559	27,297	-8.00	65.4	64.6	14.6
2006	7	207,688	29,670	-6.00	64.1	63.8	14.7
2005	7	220,945	31,564	31.92	64.9	63.7	14.7
2004	3	71,779	23,926	-4.72	67.1	66.1	12.9
2003	1	25,112	25,112	N/A	66.1	65.0	10.2

¹ San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the San Diego Unified Port District (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies. As of December 31, 2002, the Airport had no retirees or beneficiaries receiving benefits; all retirees and beneficiaries are counted as retiring from the Port as of the date of this actuarial valuation.

² Prior to Andrecht Settlement; \$18,907 average annual allowance after 7% Andrecht increase.

San Diego City Employees' Retirement System
Average Benefit Payment Amounts by Year of Retirement¹
As of Fiscal Years Ended June 30

		Years Of Creditable Service						
		0-5	5-10	10-15	15-20	20-25	25-30	30+
City of San Diego								
2009	Average Monthly Benefit	\$1,132	\$1,312	\$1,794	\$2,996	\$3,816	\$5,651	\$5,580
	Average Final Monthly Salary	11,391	6,365	5,120	6,072	6,077	7,169	6,152
	Number of New Retirees	3	5	46	32	165	152	82
2008	Average Monthly Benefit	128	1,101	1,716	2,358	3,421	5,357	5,455
	Average Final Monthly Salary	5,022	3,553	5,098	4,828	5,623	6,951	6,128
	Number of New Retirees	2	9	34	23	122	106	69
2007	Average Monthly Benefit	1,323	1,744	1,498	2,245	3,091	5,737	5,277
	Average Final Monthly Salary	2,624	9,753	4,766	4,545	5,250	7,271	5,938
	Number of New Retirees	1	5	35	26	147	92	78
2006	Average Monthly Benefit	228	2,068	1,712	2,316	3,340	5,250	5,150
	Average Final Monthly Salary	5,998	6,112	4,804	5,152	5,445	6,564	5,705
	Number of New Retirees	1	3	32	24	165	149	112
San Diego Unified Port District								
2009	Average Monthly Benefit	\$76	\$1,073	\$2,916	\$2,695	\$4,727	\$4,523	\$2,684
	Average Final Monthly Salary	5,629	4,790	8,284	5,326	7,274	10,093	5,553
	Number of New Retirees	1	4	6	4	8	3	2
2008	Average Monthly Benefit	222	490	1,237	2,308	4,223	5,484	-
	Average Final Monthly Salary	5,225	3,263	2,951	4,425	6,940	6,512	-
	Number of New Retirees	2	1	6	7	2	6	-
2007	Average Monthly Benefit	133	1,419	2,311	3,625	2,893	3,127	5,023
	Average Final Monthly Salary	5,347	5,155	6,829	7,494	4,870	4,446	6,304
	Number of New Retirees	3	3	4	9	10	1	1
2006	Average Monthly Benefit	369	2,861	1,440	3,415	4,175	5,949	5,196
	Average Final Monthly Salary	4,437	7,552	4,632	7,449	6,544	7,670	6,127
	Number of New Retirees	4	3	2	3	8	4	2
San Diego County Regional Airport Authority								
2009	Average Monthly Benefit	\$-	\$877	\$-	\$8,125	\$-	\$-	\$5,409
	Average Final Monthly Salary	-	5,996	-	15,016	-	-	7,338
	Number of New Retirees	-	1	-	2	-	-	1
2008	Average Monthly Benefit	928	-	-	2,929	2,169	3,339	-
	Average Final Monthly Salary	8,466	-	-	5,484	3,908	4,424	-
	Number of New Retirees	1	-	-	2	1	1	-
2007	Average Monthly Benefit	-	1,038	2,827	2,271	-	-	-
	Average Final Monthly Salary	-	3,951	6,470	4,504	-	-	-
	Number of New Retirees	-	2	1	2	-	-	-
2006	Average Monthly Benefit	-	-	-	-	-	-	-
	Average Final Monthly Salary	-	-	-	-	-	-	-
	Number of New Retirees	-	-	-	-	-	-	-

¹ Retirees only (including DROP participants); beneficiaries excluded. Historical data prior to 2006 unavailable due to system constraints.

San Diego City Employees' Retirement System
Active Members
As of Years Ended June 30

City of San Diego

Fiscal Year	Totals		Averages			
	Number of Members	Salaries	Annual Salary	Percentage Increase Over Prior Year	Current Age	Years Service Credit ²
2009	8,273	\$536,591,286	\$64,861	2.74%	43.4	13.0
2008	8,487	535,774,438	63,129	4.64	43.5	13.2
2007	8,494	512,440,197	60,330	0.38	43.6	13.1
2006	8,887	534,102,801	60,099	1.70	43.3	12.9
2005	9,436	557,630,735	59,096	6.65	43.0	12.7
2004	9,749	540,180,940	55,409	4.88	42.8	11.5
2003	10,100	533,595,405	52,831	2.76	42.4	11.3
2002	10,409	535,156,545	51,413	5.54	42.4	10.7
2001	9,892	481,863,319	48,712	7.67	42.1	10.7
2000	9,913	448,501,827	45,244	2.89	42.2	10.7

San Diego Unified Port District¹

2009	564	\$40,370,258	\$71,578	4.68%	44.3	9.9
2008	565	38,634,835	68,380	2.87	44.3	9.7
2007	559	37,159,870	66,476	4.24	44.5	9.9
2006	532	33,927,372	63,773	1.45	44.8	10.0
2005	558	35,077,367	62,863	3.52	44.6	9.6
2004	575	34,915,741	60,723	8.24	44.5	9.1
2003	609	34,163,647	56,098	5.70	44.7	8.7
12/31/02	606	33,995,335	56,098	N/A	44.6	8.2
2002	736	39,063,314	53,075	6.95	44.4	8.2
2001	734	36,425,136	49,626	5.99	43.8	7.7
2000	654	30,621,242	46,821	3.04	43.9	7.8

San Diego County Regional Airport Authority¹

2009	338	\$24,693,427	\$73,057	6.06%	46.4	8.0
2008	341	23,488,283	68,881	1.64	45.5	7.2
2007	324	21,956,656	67,767	4.58	45.4	7.2
2006	295	19,115,804	64,799	4.51	44.9	7.2
2005	284	17,608,879	62,003	5.29	44.0	6.5
2004	265	15,605,857	58,890	5.80	43.4	5.9
2003	208	11,577,857	55,659	8.54	43.5	6.0
12/31/02	173	8,871,283	51,279	N/A	42.9	6.5

¹ The San Diego County Regional Airport Authority (Airport) was established effective as of January 1, 2003, from the San Diego Unified Port District (Port); interim actuarial valuations were performed as of December 31, 2002, to reflect the two separate agencies.

² Actuarial valuations include purchased service credit from June 30, 2002 forward.

**San Diego City Employees' Retirement System
Inactive Members¹
As of Years Ended June 30**

City of San Diego

As of Years Ended	Total		Averages		
	Number of Inactive Members	Total Contribution Balances	Member Age	Service Years Earned ³	Contribution Balance
2009	2,827	\$106,837,122	44.4	7.4	\$37,792
2008	2,743	100,703,014	44.2	7.7	36,713
2007	2,606	90,347,344	43.8	7.7	34,669
2006	2,359	71,328,108	43.6	7.4	30,237
2005	1,998	50,420,350	44.1	7.0	25,235
2004	1,884	39,051,767	43.7	6.7	20,728
2003	1,723	31,484,749	43.7	6.4	18,273
2002	1,499	25,808,549	43.1	6.6	17,217
2001	1,438	23,501,628	42.9	6.8	16,343
2000	1,016	18,620,827	44.3	7.5	18,328

San Diego Unified Port District²

2009	281	\$4,043,994	47.1	4.3	\$14,391
2008	276	3,987,972	46.6	4.6	14,449
2007	254	3,345,129	46.1	4.6	13,170
2006	261	3,909,366	46.2	5.1	14,978
2005	250	3,355,126	45.6	4.8	13,421
2004	228	2,252,989	44.7	4.5	9,882
2003	194	1,348,216	44.7	3.9	6,950
12/31/02	186	1,235,981	43.9	4.1	6,645
2002	196	1,276,922	43.4	4.1	6,515
2001	163	1,135,633	44.2	4.3	6,967
2000	142	938,416	41.6	3.7	6,609

San Diego County Regional Airport Authority²

2009	68	\$921,442	46.9	3.5	\$13,551
2008	62	1,033,782	46.4	4.1	16,674
2007	52	736,406	47.6	4.3	14,162
2006	45	597,226	46.6	4.1	13,272
2005	26	243,263	47.5	4.1	9,356
2004	12	47,659	45.3	3.3	3,972
2003	7	9,808	45.9	0.9	1,401

¹ Inactive members are former active members of SDCERS who have left employment of the plan sponsor and have contributions still on deposit with SDCERS. Inactive SDCERS' members may or may not be vested to receive a retirement benefit in the future.

² San Diego County Regional Airport Authority was established effective as of January 1, 2003 from the San Diego Unified Port District (Port); interim actuarial valuations were performed to reflect the two separate employers. All inactive SDCERS members remained with the Port as of December 31, 2002; therefore, all contributions for inactive Port SDCERS members remained with the Port.

³ Actuarial valuations include purchased service credit from June 30, 2002 forward.

**San Diego City Employees' Retirement System
Participating Plan Sponsors**



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